

Celltrion, Inc. and its subsidiaries

**Consolidated financial statements
for the years ended December 31, 2015 and 2014
with independent auditors' report**



Table of contents

	Page
Independent auditors' report	1
Financial statements	
Consolidated statements of financial position	4
Consolidated statements of profit or loss	5
Consolidated statements of comprehensive income	6
Consolidated statements of changes in equity	7
Consolidated statements of cash flows	9
Notes to the consolidated financial statements	11

Independent auditors' report

The Board of Directors and Shareholders Celltrion, Inc.

We have audited the accompanying consolidated financial statements of Celltrion, Inc. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statement of profit or loss and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2015 and its financial performance and cash flow for the year then ended in accordance with Korean International Financial Reporting Standards.

Other matters

The consolidated financial statements of the Group for the year ended December 31, 2014 were audited by Samil accounting firm who expressed an unqualified opinion on those consolidated financial statements on March 12, 2015.

Ernst & Young Han Young

March 17, 2016

This audit report is effective as at March 17, 2016, 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.

Celltrion, Inc. and its subsidiaries

Consolidated financial statements
for the years ended December 31, 2015 and 2014

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

Kee, Woo Sung, CEO
Kim, Hyoung Ki, CEO
Celltrion, Inc.

Celltrion, Inc. and its subsidiaries
Consolidated statements of financial position
as at December 31, 2015 and 2014

(Korean won in millions)

	<u>Notes</u>		<u>December 31, 2015</u>		<u>December 31, 2014</u>
Assets					
Current assets					
Cash and cash equivalents	5,6,7	₩	149,926	₩	108,752
Short-term financial assets	5,6,8		6,001		9,746
Trade receivables	5,6,9,33,34		662,226		378,290
Other receivables	5,6,9,34		15,324		40,313
Inventories	10		233,766		223,617
Income tax refundable			9,903		24
Other current assets	14,34		19,691		32,294
Total current assets			<u>1,096,837</u>		<u>793,036</u>
Non-current assets					
Long-term financial assets	5,6,8	₩	14,698	₩	7,735
Long-term other receivables	5,6,9,34		9,236		12,930
Investments in associates	11		8,092		3,484
Property, plant and equipment	12		897,605		898,229
Intangible assets	13		697,774		601,558
Deferred tax asset	20		22,091		3,784
Other non-current assets	14		1,898		1,629
Total non-current assets			<u>1,651,394</u>		<u>1,529,349</u>
Total assets			<u>2,748,231</u>		<u>2,322,385</u>
Liabilities					
Current liabilities					
Short-term financial liabilities	5,6,16	₩	540,503	₩	404,084
Trade payables	5,6,15		5,144		4,390
Other payables	5,6,15,34		60,705		75,955
Income tax payable			42,743		5,827
Other current liabilities	18,19		16,656		3,681
Total current liabilities			<u>665,751</u>		<u>493,937</u>
Non-current liabilities					
Long-term financial liabilities	5,6,16	₩	270,909	₩	479,294
Long-term other payables	5,6,15,19		978		675
Other provisions	17		752		698
Total non-current liabilities			<u>272,639</u>		<u>480,667</u>
Total liabilities			<u>938,390</u>		<u>974,604</u>
Equity					
Equity attributable to owners of the parent					
Issued capital	1,21	₩	112,432	₩	103,570
Share premium	21		647,186		374,602
Retained earnings	22		994,025		845,040
Accumulated other comprehensive income	8,23		8,513		3,435
Other components of equity	23		(67,922)		(79,253)
Non-controlling interest	35		<u>115,607</u>		<u>100,387</u>
Total equity			<u>1,809,841</u>		<u>1,347,781</u>
Total liabilities and equity		₩	<u>2,748,231</u>	₩	<u>2,322,385</u>

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

Celltrion, Inc. and its subsidiaries
Consolidated statements of profit or loss
for the years ended December 31, 2015 and 2014

(Korean won in millions, except per share amounts)

	<u>Notes</u>		<u>2015</u>		<u>2014</u>
Revenue	25,33,34	₩	603,413	₩	471,046
Cost of sales	25,29,34		(234,569)		(129,908)
Gross profit			368,844		341,138
Selling and administrative expenses	26,29,34		(109,890)		(139,669)
Operating profit			258,954		201,469
Other income	27,34		4,533		8,546
Other expenses	27		(69,408)		(15,271)
Finance income	28,34		9,541		11,259
Finance costs	28		(40,719)		(56,625)
Share of profit or loss in associates	11		209		(266)
Profit before income tax			163,110		149,112
Income tax benefit (expense)	20		(4,828)		(31,630)
Profit for the year		₩	158,282	₩	117,482
Attributable to:					
Equity holders of the Company		₩	154,090	₩	112,676
Non-controlling interest		₩	4,192	₩	4,805
Earnings per share					
Basic earnings per share	31	₩	1,409	₩	1,058
Diluted earnings per share	31	₩	1,403	₩	1,057

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

Celltrion, Inc. and its subsidiaries
Consolidated statements of comprehensive income
for the years ended December 31, 2015 and 2014

(Korean won in millions)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Profit for the year		₩ 158,282	₩ 117,482
Other comprehensive income		5,052	3,348
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Gain (loss) on valuation of available-for-sale financial assets	8	3,815	(843)
Share of other comprehensive income of associates		-	31
Exchange differences on translation of foreign operations		2,162	3,964
Income tax effect relating to components of other comprehensive income (loss)	20	(925)	196
Total comprehensive income for the year, net of tax		<u>₩ 163,334</u>	<u>₩ 120,830</u>
Attributable to:			
Equity holders of the Company		₩ 159,166	₩ 116,018
Non-controlling interests		₩ 4,168	₩ 4,812

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

Celltrion, Inc. and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2015 and 2014
(Korean won in millions)

	Notes	Issued capital	Share premium	Retained earnings	Accumulated other comprehensive income	Other components of equity	Non-controlling interest	Total
As at January 1, 2014		₩ 100,504	₩ 370,966	₩ 735,306	₩ 94	₩ (119,738)	₩ -	₩ 1,087,132
Comprehensive income								
Profit for the year		-	-	112,676	-	-	4,806	117,482
Loss on valuation of available-for-sale financial assets	8	-	-	-	(639)	-	-	(639)
Share of other comprehensive income of associates		-	-	-	24	-	-	24
Currency translation differences		-	-	-	3,956	-	7	3,963
Total comprehensive income		-	-	112,676	3,341	-	4,813	120,830
Transactions with equity holders of the Company :								
Stock dividends	22	2,942	-	(2,942)	-	-	-	-
Exercise and forfeiture of stock options	24	124	3,636	-	-	(1,388)	-	2,372
Recognition of stock options	24	-	-	-	-	4,396	91	4,487
Acquisition of treasury stocks	23	-	-	-	-	(1,243)	-	(1,243)
Disposal of treasury stocks	23	-	-	-	-	55,759	-	55,759
Loss for disposal of treasury stocks		-	-	-	-	(19,525)	-	(19,525)
Recognition of consideration for conversion rights		-	-	-	-	-	747	747
Changes in ownership of subsidiaries		-	-	-	-	2,486	(2,486)	-
Changes in consolidation		-	-	-	-	-	97,222	97,222
Total transactions with equity holders of the Company		3,066	3,636	(2,942)	-	40,485	95,574	139,819
As at December 31, 2014		₩ 103,570	₩ 374,602	₩ 845,040	₩ 3,435	₩ (79,253)	₩ 100,387	₩ 1,347,781

(Continued)

Celltrion, Inc. and its subsidiaries
Consolidated statements of changes in equity
for the years ended December 31, 2015 and 2014 (cont'd)
(Korean won in millions)

	Notes	Issued capital	Share premium	Retained earnings	Accumulated other comprehensive income	Other components of equity	Non-controlling interest	Total
As at January 1, 2015		₩ 103,570	₩ 374,602	₩ 845,040	₩ 3,435	₩ (79,253)	₩ 100,387	₩ 1,347,781
Comprehensive income								
Profit for the year		-	-	154,090	-	-	4,192	158,282
Gain on valuation of available-for-sale financial assets	8	-	-	-	2,923	-	(33)	2,890
Currency translation differences		-	-	-	2,155	-	7	2,162
Total comprehensive income		-	-	154,090	5,078	-	4,166	163,334
Transactions with equity holders of the Company :								
Stock dividends	22	5,105	-	(5,105)	-	-	-	-
Exercise and forfeit of stock options	24	208	9,371	-	-	(2,641)	2,254	9,192
Recognition of stock options	24	-	-	-	-	4,921	87	5,008
Conversion of convertible bonds		3,549	263,213	-	-	-	9,986	276,748
Issuance of exchangeable bonds	23	-	-	-	-	8,474	-	8,474
Acquisition of treasury stock	23	-	-	-	-	(1,532)	(38)	(1,570)
Recognition of consideration for conversion rights		-	-	-	-	-	874	874
Changes in ownership of subsidiaries		-	-	-	-	2,109	(2,109)	-
Total transactions with equity holders of the Company		8,862	272,584	(5,105)	-	11,331	11,054	298,726
As at December 31, 2015		₩ 112,432	₩ 647,186	₩ 994,025	₩ 8,513	₩ (67,922)	₩ 115,607	₩ 1,809,841

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

Celltrion, Inc. and its subsidiaries
Consolidated statements of cash flows
for the years ended December 31, 2015 and 2014 (cont'd)

(Korean won in millions)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Operating activities			
Cash generated from operations	32	₩ 98,245	₩ 173,423
Income tax paid		(20,678)	(28,264)
Net cash flows from operating activities		77,567	145,159
Investing activities			
Cash inflow from investing activities			
Interest received		2,100	2,396
Dividend received		770	20
Decrease in short-term financial assets		9,725	17,321
Decrease in other receivables		43,021	9,389
Decrease in long-term financial assets		645	641
Decrease in long-term other receivables		1,407	3,705
Decrease in investments in associates		2,421	700
Acquisition of other grants		6,139	4,386
Proceeds from disposal of property, plant and equipment		28	195
Proceeds from disposal of intangible assets		714	-
Cash inflow from business combination		-	11,619
Cash outflow from investing activities			
Increase in short-term financial assets		(5,608)	(11,095)
Increase in other receivables		(30,004)	(5,674)
Increase in long-term financial assets		(3,702)	(796)
Increase in long-term other receivables		(2,422)	(1,756)
Acquisition of investments in associates		(7,590)	(2,000)
Acquisition of property, plant and equipment		(50,585)	(31,472)
Acquisition of intangible assets		(133,997)	(103,917)
Net cash flows from investing activities		₩ (166,938)	₩ (106,338)

(Continued)

Celltrion, Inc. and Subsidiaries
Condensed consolidated statements of cash flows
for the years ended December 31, 2015 and 2014 (cont'd)

(Korean won in millions)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>	
Financing activities				
Cash inflow from financing activities				
Increase in short-term financial liabilities	₩	143,448	₩	142,489
Increase in long-term financial liabilities		241,000		107,400
Issuance of ordinary shares		9,201		2,377
Disposal of treasury stock		-		30,000
Cash outflow from financing activities				
Interest paid		(35,237)		(36,575)
Dividend paid		(1)		-
Decrease in short-term financial liabilities		(170,134)		(241,476)
Issuance costs of long-term financial liabilities		(557)		-
Decrease in long-term financial liabilities		(55,714)		(14,271)
Stock issuance costs		(8)		(20)
Acquisition of treasury stock		(1,571)		(1,243)
Net cash flows from financing activities		130,427		(11,319)
Net increase in cash and cash equivalents		41,056		27,502
Net foreign exchange difference		118		496
Cash and cash equivalents as at January 1		108,752		80,754
Cash and cash equivalents as at December 31	<u>₩</u>	<u>149,926</u>	<u>₩</u>	<u>108,752</u>

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

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

1. Corporate information

General information about Celltrion, Inc. (“the Company”) and its subsidiaries (collectively referred to as “the Group”) is as follows:

The Company was incorporated on February 27, 1991, and listed its common stock on the Korea Stock Exchange (KOSDAQ) on July 19, 2005. The Company changed its name on August 19, 2008, from Orchem Co., Ltd. to Celltrion, Inc. after the merger with Celltrion, Inc., which was established on February 26, 2002.

The primary business objective of the Company is to engage in development and production of various therapeutic proteins including oncology treatment drugs through the Company’s bioengineering and mammalian cell-culture technology. The Company’s head office is located in the Incheon Free Economic Zone.

The Company’s shareholders as at December 31, 2015 and 2014 are as follows:

	December 31, 2015		December 31, 2014	
	Number of shares	Equity interest	Number of shares	Equity interest
Celltrion Holdings Co., Ltd.	21,825,630	19.41%	20,786,315	20.07%
Celltrion GSC Co., Ltd.	2,421,392	2.15%	2,306,088	2.23%
Ion Investment B.V.	16,188,297	14.40%	15,417,426	14.89%
Others	70,509,709	62.71%	63,595,842	61.40%
Treasury stock	1,486,635	1.33%	1,464,100	1.41%
	112,431,663	100.00%	103,569,771	100.00%

1.1 Consolidated subsidiaries

Consolidated subsidiaries as at December 31, 2015 and 2014 are as follows:

Subsidiary	Equity interest		Domicile	Year-end	Primary business activity
	December 31, 2015	December 31, 2014			
Celltrion Pharm, Inc. (*1)	45.82%	48.19%	Korea	December	Manufacturing and sales of medicine
Celltrion Chemical Research Institute (*2)	45.82%	48.19%	Korea	December	Research and development of new medicine and pharmaceutical raw material
Celltrion Pharma USA, Inc. (*2)	45.82%	48.19%	USA	December	Marketing in the U.S. and establishing distribution network
Celltrion Don LLC	100.00%	100.00%	Russia	December	Agriculture in Russia
Celltrion Eurasia LLC	100.00%	100.00%	Russia	December	Agriculture in Russia
Celltrion Europe Limited	100.00%	100.00%	United Kingdom	December	Bio-similar clinical trial

(*1) Although the Company holds less than 50% equity interest, the subsidiary was consolidated due to the Company’s stock warrants granting potential voting rights.

(*2) The subsidiary is wholly owned by Celltrion Pharm, Inc.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

1. Corporate information (cont'd)

1.2 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation for the year ended December 31, 2014 were as follows:

Name	Newly included/excluded in consolidation	Reason
Celltrion Pharm, Inc.	Newly included	Acquired control after exercising stock warrants with potential voting rights
Celltrion Chemical Research Institute	Newly included	
Celltrion Pharma USA, Inc.	Newly included	

1.3 Financial information of subsidiaries (before elimination of intercompany transactions)

The summarized statements of financial position of subsidiaries as at December 31, 2015 and 2014, and the related condensed statements of profit or loss and other comprehensive income of subsidiaries for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

Subsidiary	December 31, 2015		
	Assets	Liabilities	Equity
Celltrion Pharm, Inc.	₩ 468,519,989	₩ 232,253,566	₩ 236,266,423
Celltrion Chemical Research Institute	4,904,291	1,356,851	3,547,440
Celltrion Pharma USA, Inc.	188,307	-	188,307
Celltrion Don LLC	4,324,252	13,565,008	(9,240,756)
Celltrion Eurasia LLC	393	-	393
Celltrion Europe Limited	2	-	2

Subsidiary	December 31, 2015		
	Revenue	Profit (loss)	Comprehensive income (loss)
Celltrion Pharm, Inc.	₩ 72,578,429	₩ 7,386,732	₩ 7,328,024
Celltrion Chemical Research Institute	6,196,700	(569,725)	(569,725)
Celltrion Pharma USA, Inc.	-	(83,093)	(69,025)
Celltrion Don LLC	2,049,907	(4,403,460)	(2,255,390)
Celltrion Eurasia LLC	-	-	-
Celltrion Europe Limited	-	-	-

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

1. Corporate information (cont'd)

1.3 Financial information of subsidiaries (before elimination of intercompany transactions)
(cont'd)

Subsidiary	December 31, 2014		
	Assets	Liabilities	Equity
Celltrion Pharm, Inc.	₩ 412,667,481	₩ 198,848,533	₩ 213,818,948
Celltrion Chemical Research Institute	5,006,598	889,432	4,117,166
Celltrion Pharma USA, Inc.	257,332	-	257,332
Celltrion Don LLC	4,687,019	11,657,468	(6,970,449)
Celltrion Eurasia LLC	393	-	393
Celltrion Europe Limited	2	-	2

Subsidiary	December 31, 2014		
	Revenue	Profit (loss)	Comprehensive income (loss)
Celltrion Pharm, Inc.	₩ 64,708,354	₩ 6,269,748	₩ 6,269,748
Celltrion Chemical Research Institute	8,223,040	149,643	149,643
Celltrion Pharma USA, Inc.	-	(53,811)	(43,640)
Celltrion Don LLC	1,716,156	(8,470,278)	(4,776,055)
Celltrion Eurasia LLC	-	-	-
Celltrion Europe Limited	-	-	-

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The Group maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS). The accompanying consolidated 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 consolidated financial statements.

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

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

The preparation of the consolidated 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 consolidated financial statements are disclosed in Note 3.

2.1.1 Changes in accounting policy and disclosures

(1) New and amended standards adopted by the Group

The Group newly applied the following amended and enacted standards for the reporting period beginning on January 1, 2015, and there is no material impact on the consolidated financial statements.

- *Amendment to KIFRS 1019, Defined Benefit Plans: Employee Contributions*
- *Annual Improvements to KIFRS 2010-2012 Cycle*
- *Annual Improvements to KIFRS 2011-2013 Cycle*

(2) New standards and interpretations 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.

KIFRS 1109 Financial Instruments

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

KIFRS 1115 Revenue from Contracts with Customers

Under KIFRS 1115, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under KIFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

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

Amendments to KIFRS 1111 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to KIFRS 1111 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant KIFRS 1103 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to KIFRS 1111 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have an impact on the Group.

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

The amendments clarify the principle in KIFRS 1016 and KIFRS 1038 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to KIFRS 1016 and KIFRS 1041 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of KIFRS 1041. Instead, KIFRS 1016 will apply. After initial recognition, bearer plants will be measured under KIFRS 1016 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of KIFRS 1041 measured at fair value less costs to sell. For government grants related to bearer plants, KIFRS 1020 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

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

The amendments address the conflict between KIFRS 1110 and KIFRS 1028 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in KIFRS 1103, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

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

Amendments to KIFRS 1001 Disclosure Initiative

The amendments to KIFRS 1001 Presentation of Financial Statements clarify, rather than significantly change, existing KIFRS 1001 requirements. The amendments clarify:

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to KIFRS 1110, KIFRS 1112 and KIFRS 1028 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under KIFRS 1110. The amendments to KIFRS 1110 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to KIFRS 1110 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to KIFRS 1028 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

- ✓ KIFRS 1105 Non-current Assets Held for Sale and Discontinued Operations
- ✓ KIFRS 1107 Financial Instruments: Disclosures
- ✓ KIFRS 1019 Employee Benefits
- ✓ KIFRS 1034 Interim Financial Reporting

These amendments are not expected to have any impact on the Group.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.2 Consolidation

The Group has prepared the consolidated financial statements in accordance with KIFRS 1110, *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company 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. The consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company 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 other standards. 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 and subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In transactions with non-controlling interests, which do not result in loss of control, the Group recognizes directly in equity attributable to owners of the parent any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the owners of the parent.

(b) Associates

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

(c) Joint Arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.3 Segment Reporting

Management performs the allocation of resources and assessment of performance by each operating segment. The operating segment of the Group is recognized based on the method of organizing and generating income. As at December 31, 2015, the Group's segment consists of manufacturing and sales of biopharmaceutical medicines and chemical medicines. The Group had one operating segment of manufacturing and sales of biopharmaceutical medicines, until the prior period, however, the chemical medicines segment is newly included in the current period as a result of adjustment of consolidation scope.

Business objective of biopharmaceutical medicines segment is to develop, manufacture and sell various therapeutic proteins including oncology treatment drugs by bioengineering and mammalian cell-culture technology. Business objective of chemical medicines segment is to develop, manufacture and sell chemical medicines.

The Group assesses the performance of each operating segment based on operating profit, and there is no difference with the amounts reported on the condensed consolidated statement of profit or loss, except for intergroup transactions.

The following table summarizes the results of financial performance of the Group by operating segments for the years ended December 31, 2015 and 2014 (Korean won in thousands):

	December 31, 2015					
	Biopharmaceutical medicines	Chemical medicines	Others	Total	Adjustment of intergroup transactions	Amount after adjustment
Revenue	₩ 528,784,433	₩ 72,578,429	₩ 8,246,607	₩ 609,609,469	₩ (6,196,700)	₩ 603,412,769
Depreciation	30,244,750	896,918	557,317	31,698,985	-	31,698,985
Amortization	48,721,670	1,738,918	14,510	50,475,098	-	50,475,098
Operating profit (loss)	253,902,200	5,849,088	(1,315,622)	258,435,666	518,653	258,954,319
Non-current assets (*1)	1,316,702,947	283,955,894	2,764,556	1,603,423,397	(8,044,319)	1,595,379,078

	December 31, 2014					
	Biopharmaceutical medicines	Chemical medicines	Others	Total	Adjustment of intergroup transactions	Amount after adjustment
Revenue	₩ 404,621,868	₩ 64,708,354	₩ 9,939,196	₩ 479,269,418	₩ (8,223,907)	₩ 471,045,511
Depreciation	28,645,775	767,915	752,201	30,165,891	-	30,165,891
Amortization	44,467,006	1,631,361	14,553	46,112,920	-	46,112,920
Operating profit (loss)	197,468,155	7,373,574	(1,319,138)	203,522,591	(121,699)	203,400,892
Non-current assets (*1)	1,266,231,984	236,192,326	3,598,484	1,506,022,794	(6,235,938)	1,499,786,856

(*1) The amount is the sum of property, plant and equipment and intangible assets.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Translation into the presentation currency

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each statement of income are translated at average exchange rates;
- equity is translated at the historical exchange rate; and
- all resulting exchange differences are recognized in OCI.

2.5 Financial assets

(a) Classification and measurement

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, and held-to-maturity financial assets. 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 OCI. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.5 Financial assets (cont'd)

(b) Impairment

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

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

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. In addition, an objective evidence includes a significant or a consistent decrease of fair value of available-for-sale securities.

(c) Derecognition

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

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis to 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.

2.6 Derivative instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of income within other income (expenses) or financial income (expenses) according to the nature of transactions.

2.7 Inventories

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

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.8 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and accumulated impairment loss. Historical cost includes expenditures directly attributable to the acquisition of the items.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

	<u>Estimated Useful Lives</u>
Buildings	40 years
Facilities	16 years
Structures	20 years
Machinery	5-10 years
Vehicles	5 years
Furniture	5 years

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

2.9 Borrowing costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expense over the period of its occurrence.

2.10 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 attached 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.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.11 Intangible assets

Intangible assets are stated at cost at initial recognition and stated at net of accumulated amortization and accumulated impairment loss after initial recognition.

Internally generated development costs are the aggregate costs recognized after meeting the asset recognition criteria, including technical feasibility and expected future economic benefits. Facility usage 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 assets are expected to be utilized.

Intangible assets with definite useful life that are amortized using the straight-line method over their estimated useful lives are as follows:

	<u>Estimated Useful Lives</u>
Software	5 years
Intellectual property	16 years
Development expenses	5~15 years
Industrial property rights	5 years
Patents	5 years

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

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

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

2.12 Impairment of non-financial assets

Intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.13 Financial liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

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 payables, borrowings, and other financial liabilities in the statement of financial position.

(b) Derecognition

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

2.14 Financial guarantee contract

Financial guarantees are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amounts below and recognized as other financial liabilities.

- 1) amount calculated in accordance with KIFRS 1037, *Provisions, Contingent Liabilities and Contingent Assets*; or
- 2) the initial amount, less accumulated amortization recognized in accordance with KIFRS 1018, *Revenue*.

2.15 Compound financial instruments

Compound financial instruments are convertible bonds that can be converted into equity instruments at the option of the holder.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially on the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

In accordance with the Interpretation Statements No.00094 issued by the Financial Supervisory Service in Korea, in relation to exchangeable bonds and convertible bonds. This accounting treatment is applicable within KIFRS in accordance with Item 1 under Paragraph 1 of Article 13 in the Act on External Audit for Stock Companies.

2.16 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.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.17 Current and deferred income 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. The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Management periodically evaluates tax policies that are applied in tax returns in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of the amount expected to be paid to the tax authorities.

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 that 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.

2.18 Employee benefits

(a) Post-employment benefits

The Group has a defined contribution plan. 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 expenses when an employee has rendered service.

(b) Share-based payments

Equity-settled share-based payments granted to employees are estimated at fair value of equity instruments on the grant date 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 credited to share capital (nominal value) and share premium.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.19 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 subsidiaries share a return obligation if the product specifications are not satisfied or a clear defect exists in relation to the sale of goods. However, as at December 31, 2015, an estimated return does not exist upon the products sold.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognized upon delivery of products to customers. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Rendering of services

When the outcome of a transaction involving rendering of services can be estimated reliably, revenue associated with the transaction is recognized by the percentage of completion of the transaction. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the costs that are recoverable.

(c) Interest income

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

(d) Dividend income

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

2.20 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.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

2. Summary of significant accounting policies (cont'd)

2.21 Approval of financial statements

The 2015 financial statements of the Group were approved by the Board of Directors on February 16, 2016, which is subject to approval at the annual shareholders' meeting.

2.22 Dividend distribution

Dividend distribution to the Group's shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved at the annual meeting of shareholders.

3. Critical accounting estimates and assumptions

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

(a) Income taxes

The Group is subject to income taxes based on tax laws and interpretations of tax authorities. There are many transactions and calculations for which the ultimate tax determination is uncertain.

(b) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

4. Financial risk management

4.1 Financial risk factors

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

Risk management is carried out by the Office of Planning & Coordination and the Group's finance and accounting department which establishes management policies identifies, evaluates and hedges financial risks.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

4. Financial risk management (cont'd)

4.1 Financial risk factors (cont'd)

4.1.1 Market risk

(a) Foreign exchange risk

The Group is exposed to foreign exchange risks arising from the usual transactions. Most of this risk arises from purchases traded in currencies other than the functional currency. Major currencies which the Group is exposed to foreign exchange risk are the US dollar and Euro.

The Group manages foreign exchange risk in advance to minimize currency risk. Basic strategy for foreign exchange management is to reduce volatility of gain (loss). Since the risk mostly arises from payments denominated in foreign currency for imports, finance and accounting department reduces currency risk by Lead and Lag method of monitoring foreign exchange market with reference to foreign exchange market trends issued by authorities.

As at December 31, 2015, if the foreign exchange rate of the Korean won fluctuated by 7% (2014: 6%) while other variables were fixed, the effects on income before tax would be as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
	7% increase	7% decrease	6% increase	6% decrease
USD	₩ (7,351,715)	₩ 7,351,715	₩ (16,447,354)	₩ 16,447,354
EUR	(571,718)	571,718	(656,501)	656,501
GBP	(5,330)	5,330	(201,240)	201,240
JPY	-	-	(101)	101
CHF	-	-	(3,001)	3,001
	₩ (7,928,763)	₩ 7,928,763	₩ (17,308,197)	₩ 17,308,197

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. The portfolio is diversified in accordance with the policies set by the Group.

Stocks owned by the Group entity are traded in the Korea Exchange and stock price is included in KOSDAQ index.

The effect on the equity and after-tax profit by price fluctuations of listed equities index and unlisted stock as at December 31, 2015 and 2014 are as follows (Korean won in thousands). The analysis is based on the assumption that the price of listed stock held by the Group had increased/decreased by 17%(2014: 8%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index, but the unlisted equity instruments that have significantly deviating estimated cash flows, and various estimates' occurrence probability cannot be reliably evaluated. Thus, the unlisted equity instruments are excluded from the analysis.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

4. Financial risk management (cont'd)

4.1 Financial risk factors (cont'd)

4.1.1 Market risk (cont'd)

	Effect on the after-tax profit			
	December 31, 2015		December 31, 2014	
	17% increase	17% decrease	8% increase	8% decrease
KOSDAQ	₩ -	₩ -	₩ -	₩ -

	Effect on the equity			
	December 31, 2015		December 31, 2014	
	17% increase	17% decrease	8% increase	8% decrease
KOSDAQ	₩ 1,919,340	₩ (1,919,340)	₩ 502,346	₩ (502,346)

(c) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

Based on the simulations performed, the impact on the profit of a 30 basis points (30bps) (2014: 40bps) shift would be as follows (Korean won in thousands):

	Effect on the after-tax profit			
	December 31, 2015		December 31, 2014	
	30 bp increase	30 bp decrease	40 bp increase	40 bp decrease
Interest expenses	₩ (831,283)	₩ 831,283	₩ (1,402,918)	₩ 1,402,918

	Effect on the equity			
	December 31, 2015		December 31, 2014	
	30 bp increase	30 bp decrease	40 bp increase	40 bp decrease
Interest expenses	₩ (831,283)	₩ 831,283	₩ (1,402,918)	₩ 1,402,918

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

4. Financial risk management (cont'd)

4.1 Financial risk factors (cont'd)

4.1.2 Credit risk

Credit risk arises when the customer or counter party to the transaction fails to perform contractual obligations in transactions and investment. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The Group has deposited its cash and cash equivalents in several financial institutions such as Korea Development Bank and Woori Bank. The Group maintains business relationship with those financial institutions with high credit ratings evaluated by independent credit rating institutions and accordingly, credit risks associated with these financial institutions are limited. Customers with high credit that are expected to have stable and long-term relationship are selected and entered into exclusive distributorship rights.

The maximum exposure to credit risk as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Cash and cash equivalents (*1)	₩ 149,921,017	₩ 108,747,363
Financial assets at fair value through profit or loss	-	9,745,800
Short-term financial instruments	6,000,720	-
Trade receivables	662,225,999	378,290,034
Other receivables	24,559,842	53,243,084
Financial guarantee contracts	68,962,360	60,132,967
Put option	30,000,000	-

(*1) The difference between cash and cash equivalents on consolidated statements of financial position is cash on hand.

4.1.3 Liquidity risk

Maintaining optimal liquidity is very important due to the characteristic of the business which requires significant investment on product development. The Group 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 currency, if applicable external regulatory or legal requirements.

Finance and accounting department 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 Group secures credit lines for trade finance and bank overdraft. In case of significant facility investments, liquidity risk is reduced as maturities are matched by using internally held funds and long-term borrowings.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

4. Financial risk management (cont'd)

4.1 Financial risk factors (cont'd)

4.1.3 Liquidity risk (cont'd)

The analysis of the Group's liquidity risk as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015				
	6 months and less	Over 6 months ~ 1 year	Over 1 ~ 5 years	Over 5 years	Total
Finance liabilities	₩ 229,894,065	₩ 294,453,585	₩ 319,300,189	₩ 12,797	₩ 843,660,636
Trade payables	5,144,118	-	-	-	5,144,118
Other payables	60,705,032	-	978,000	-	61,683,032
Financial guarantee contracts	68,962,360	-	-	-	68,962,360
Put option	15,000,000	-	15,000,000	-	30,000,000
	December 31, 2014				
	6 months and less	Over 6 months ~ 1 year	Over 1 ~ 5 years	Over 5 years	Total
Finance liabilities	₩ 223,765,964	₩ 262,172,531	₩ 504,226,719	₩ 101,105	₩ 990,266,319
Trade payables	4,389,832	-	-	-	4,389,832
Other payables	75,901,643	53,577	675,000	-	76,630,220
Financial guarantee contracts	60,132,967	-	-	-	60,132,967

4.2 Capital risk management

The Group's capital objectives 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.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, make borrowings, issue new shares or sell assets to increase and reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

4. Financial risk management (cont'd)

4.2 Capital risk management (cont'd)

Gearing ratios as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
Total borrowings (a)	₩	795,861,531	₩	845,452,073
Less: cash and cash equivalents (b)		(149,926,060)		(108,752,400)
Net debt (c)=(a)+(b)		645,935,471		736,699,673
Total liabilities (d)		938,389,810		974,603,694
Total equity(e)		1,809,840,731		1,347,781,345
Total capital (f)=(c)+(e)		2,455,776,202		2,084,481,018
Gearing ratio (c)/(f)		26.30%		35.34%
Debt to equity ratio (d)/(e)		51.85%		72.31%

5. Fair value

5.1 Fair value of financial instruments by category

Carrying amount and fair value of financial instruments by category as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	₩ 149,926,060	₩ 149,926,060	₩ 108,752,400	₩ 108,752,400
Financial instruments at fair value through profit or loss	-	-	9,745,800	9,745,800
Short-term financial instruments	6,000,720	6,000,720	-	-
Available-for-sale financial assets (*1)	9,201,730	9,201,730	5,386,742	5,386,742
Trade receivables	662,225,999	662,225,999	378,290,034	378,290,034
Other receivables	24,559,842	24,451,680	53,243,084	53,275,342
	₩ 851,914,351	₩ 851,806,189	₩ 555,418,060	₩ 555,450,318
Financial liabilities				
Trade payables	₩ 5,144,118	₩ 5,144,118	₩ 4,389,832	₩ 4,389,832
Borrowings and bonds	795,861,531	796,465,566	845,452,074	844,181,205
Derivative financial instruments	15,549,642	15,549,642	37,926,102	37,926,102
Other payables	61,683,032	61,683,032	76,630,220	76,630,220
	₩ 878,238,323	₩ 878,842,358	₩ 964,398,228	₩ 963,127,359

(*1) 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 therefore excluded from the fair value disclosures.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

5. Fair value (cont'd)

5.2 Financial instruments measured at cost

Details of financial instruments measured at cost as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
Available-for-sale financial assets				
MBN	₩	1,475,167	₩	1,475,167
Others		3,318,599		873,433
	₩	<u>4,793,766</u>	₩	<u>2,348,600</u>

The financial instruments are measured at cost as they are unlisted equity securities whose various estimates' occurrence probability cannot be reliably measurable and their estimated cash flows deviate significantly.

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:

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

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value or its fair value is disclosed as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets and liabilities measured at fair value				
Available-for-sale financial assets	₩ 8,971,237	₩ -	₩ 230,493	₩ 9,201,730
Derivative financial liabilities	-	-	15,549,642	15,549,642
Financial assets and liabilities not measured at fair value				
Borrowings and bonds	-	796,465,566	-	796,465,566
	<u>December 31, 2014</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets and liabilities measured at fair value				
Financial assets at fair value through profit or loss	₩ 9,745,800	₩ -	₩ -	₩ 9,745,800
Available-for-sale financial assets	5,080,982	-	305,760	5,386,742
Derivative financial liabilities	-	-	37,926,102	37,926,102
Financial assets and liabilities not measured at fair value				
Borrowings and bonds	-	844,181,205	-	844,181,205

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

5. Fair value (cont'd)

5.4 Valuation technique and the Inputs

Valuation techniques and inputs used in recurring fair value measurements categorized within Level 3 of the fair value hierarchy as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

December 31, 2015					
	Fair value	Level	Valuation technique	Inputs	Range of inputs
Derivative financial liabilities (consideration for conversion rights and others)	₩ 15,549,642	3	Monte Carlo model	KRW risk free rate	1.63% ~ 1.82%
				USD risk free rate	0.60% ~ 1.78%
				Fluctuation of stock price	47.77%
				Fluctuation of foreign exchange rate	7.02%
December 31, 2014					
	Fair value	Level	Valuation technique	Inputs	Range of inputs
Derivative financial liabilities (consideration for conversion rights and others)	₩ 37,926,102	3	Monte Carlo model	KRW risk free rate	2.07% ~ 2.29%
				USD risk free rate	0.20% ~ 1.68%
				Fluctuation of stock price	49.96%
				Fluctuation of foreign exchange rate	6.53%

5.5 Valuation processes for fair value measurements categorized within level 3

The Group uses fair values, classified as level 3 for financial reporting purpose, calculated by external professional valuation institutions.

5.6 Sensitivity analysis for recurring fair value measurements categorized within level 3

The sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or most unfavorable. Among financial instruments classified as level 3, subject to the sensitivity analysis, there are derivatives related convertible bonds and bond with warrants whose fluctuation of fair values are recognized in net income.

The sensitivity analysis on how 10% change in stock price of the underlying asset affects profit or loss before tax, analyzed based on correlation in stock volatility, which is a significant unobservable input variable, is as follows (Korean won in thousands):

		December 31, 2015	
		10% increase	10% decrease
Derivative financial liabilities (consideration for conversion rights and others)	₩	(4,673,658)	₩ 4,040,663
		December 31, 2014	
		10% increase	10% decrease
Derivative financial liabilities (consideration for conversion rights and others)	₩	(4,168,493)	₩ 3,359,996

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

6. Financial instruments by category

6.1 Carrying amounts of financial instruments by category

Categorizations of financial instruments as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015		
	Loans and receivables	Available-for-sale financial assets	Total
Current assets			
Cash and cash equivalents	₩ 149,926,060	₩ -	₩ 149,926,060
Short-term financial assets	6,000,720	-	6,000,720
Trade receivables	662,225,999	-	662,225,999
Other receivables	15,324,341	-	15,324,341
	<u>₩ 833,477,120</u>	<u>₩ -</u>	<u>₩ 833,477,120</u>
Non-current assets			
Long-term financial assets	₩ 702,100	₩ 13,995,496	₩ 14,697,596
Other receivables	9,235,501	-	9,235,501
	<u>9,937,601</u>	<u>13,995,496</u>	<u>23,933,097</u>
	<u>843,414,721</u>	<u>13,995,496</u>	<u>857,410,217</u>

	December 31, 2015		
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Total
Current liabilities			
Short-term financial liabilities	₩ 15,549,642	₩ 524,953,011	₩ 540,502,653
Trade payables	-	5,144,118	5,144,118
Other payables	-	60,705,032	60,705,032
	<u>₩ 15,549,642</u>	<u>₩ 590,802,161</u>	<u>₩ 606,351,803</u>
Non-current liabilities			
Long-term financial liabilities	₩ -	₩ 270,908,520	₩ 270,908,520
Other payables	-	978,000	978,000
	<u>₩ -</u>	<u>₩ 271,886,520</u>	<u>₩ 271,886,520</u>
	<u>₩ 15,549,642</u>	<u>₩ 862,688,681</u>	<u>₩ 878,238,323</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

6. Financial instruments by category (cont'd)

6.1 Carrying amounts of financial instruments by category (cont'd)

	December 31, 2014			
	Financial assets at fair value through profit or loss	Loans and receivables	Available-for- sale financial assets	Total
Current assets				
Cash and cash equivalents	₩ -	₩ 108,752,400	₩ -	₩ 108,752,400
Short-term financial assets	9,745,800	-	-	9,745,800
Trade receivables	-	378,290,034	-	378,290,034
Other receivables	-	40,312,638	-	40,312,638
	<u>₩ 9,745,800</u>	<u>₩ 527,355,072</u>	<u>₩ -</u>	<u>₩ 537,100,872</u>
Non-current assets				
Long-term financial assets	₩ -	₩ -	₩ 7,735,342	₩ 7,735,342
Other receivables	-	12,930,446	-	12,930,446
	<u>₩ -</u>	<u>₩ 12,930,446</u>	<u>₩ 7,735,342</u>	<u>₩ 20,665,788</u>
	<u>₩ 9,745,800</u>	<u>₩ 540,285,518</u>	<u>₩ 7,735,342</u>	<u>₩ 557,766,660</u>

	December 31, 2014		
	Financial liabilities at fair value through profit or loss	Financial liabilities at amortized cost	Total
Current liabilities			
Short-term financial liabilities	₩ -	₩ 404,084,065	₩ 404,084,065
Trade payables	-	4,389,832	4,389,832
Other payables	-	75,955,220	75,955,220
	<u>₩ -</u>	<u>₩ 484,429,117</u>	<u>₩ 484,429,117</u>
Non-current liabilities			
Long-term financial liabilities	₩ 37,926,102	₩ 441,368,008	₩ 479,294,110
Other receivables	-	675,000	675,000
	<u>₩ 37,926,102</u>	<u>₩ 442,043,008</u>	<u>₩ 479,969,110</u>
	<u>₩ 37,926,102</u>	<u>₩ 926,472,125</u>	<u>₩ 964,398,227</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

6. Financial instruments by category (cont'd)

6.2 Net income or losses by category of financial instruments

Net income and loss of financial instruments by category for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

		2015					
		Gain (loss) on valuation	Gain (loss) on Redemption	Gain (loss) on valuation of (other) comprehensive income (loss)	Interest income (expenses)	Gain (loss) on disposal	Impairment
Financial assets							
Financial assets at fair value through profit or loss	₩	-	₩	-	₩	-	₩ (20,700)
Loans and receivables Available-for-sale financial assets		-	-	-	756,363	-	(856,092)
		-	-	2,890,105	6,300,951	89,814	-
	₩	-	₩	₩ 2,890,105	₩ 7,057,314	₩ 69,114	₩ (856,092)
Financial liabilities							
Financial liabilities at fair value through profit or loss	₩	(9,729,300)	₩	-	₩	-	₩ (54,313,582)
Financial liabilities measured at amortized cost		-	(553,649)	-	(29,714,500)	-	-
	₩	₩ (9,729,300)	₩ (553,649)	₩ -	₩ (29,714,500)	₩ (54,313,582)	₩ -
	₩	₩ (9,729,300)	₩ (553,649)	₩ 2,890,105	₩ (22,657,186)	₩ (54,244,468)	₩ (856,092)
		2014					
		Gain (loss) on valuation	Gain (loss) on valuation of (other) comprehensive income (loss)	Interest income (expenses)	Gain (loss) on disposal	Impairment	
Financial assets							
Financial assets at fair value through profit or loss	₩	382,667	₩	-	₩	1,903	₩ 551,304
Loans and receivables Available-for-sale financial assets		-	-	10,168,334	-	-	(3,637,756)
		-	(638,810)	-	(128,609)	(66,331)	
	₩	₩ 382,667	₩ (638,810)	₩ 10,170,237	₩ 422,695	₩ (3,704,087)	
Financial liabilities							
Financial liabilities at fair value through profit or loss	₩	(4,701,865)	₩	-	₩	-	₩ -
Financial liabilities measured at amortized cost		-	-	(38,349,073)	-	-	-
	₩	₩ (4,701,865)	₩ -	₩ (38,349,073)	₩ -	₩ -	₩ -
	₩	₩ (4,319,198)	₩ (638,810)	₩ (28,178,836)	₩ 422,695	₩ (3,704,087)	

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

7. Cash and cash equivalents

Details of cash and cash equivalents as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Cash on hand	₩ 5,043	₩ 5,037
Bank deposits and others (*1)	149,921,017	108,747,363
	<u>₩ 149,926,060</u>	<u>₩ 108,752,400</u>

(*1) Cash and cash equivalents amounting to ₩1,866 million (2014: ₩1,076 million) are restricted in use for the project of trans-governmental enterprise for pandemic influenza in Korea (Note 19).

8. Financial assets

Details of financial assets as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Current assets		
Financial assets at fair value through profit or loss	₩ -	₩ 9,745,800
Short-term financial instruments (*1)	6,000,720	-
Non-current assets		
Long-term financial instruments (*1)	702,100	-
Available-for-sale financial assets	13,995,496	7,735,342
	<u>₩ 20,698,316</u>	<u>₩ 17,481,142</u>

(*1) As at December 31, 2015, short-term financial instruments and long-term financial instruments are restricted to use for the Group's borrowings and subsidies.

Details of financial assets at fair value through profit or loss as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Equity securities	₩ -	₩ 9,745,800

None of these financial assets at fair value through profit or loss is either past due or impaired.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

8. Financial assets (cont'd)

Movements in financial assets classified as available-for-sale for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
Beginning	₩ 7,735,342	₩	42,207,058
Acquisition	3,000,000		795,691
Changes in consolidation scope (*1)	-		(33,133,723)
Disposal	(554,834)		(1,269,531)
Valuation	3,814,988		(797,822)
Impairment	-		(66,331)
Ending	<u>₩ 13,995,496</u>	<u>₩</u>	<u>7,735,342</u>

(*1) During the prior year, the Company classified Celltrion Pharm, Inc. as a subsidiary. As a result of the business combination, available-for-sale assets and derivative financial assets previously recognized for bonds with stock warrants were eliminated.

Financial assets classified as available-for-sale as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>		<u>December 31, 2014</u>
Marketable securities	₩ 8,971,237	₩	5,080,982
Non-marketable securities	5,024,259		2,654,360
	<u>₩ 13,995,496</u>	<u>₩</u>	<u>7,735,342</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

9. Trade and Other Receivables

Details of trade receivables as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Current		Non-current		Total
December 31, 2015					
Original amount	₩	665,226,713	₩	680,295	₩ 665,907,008
Allowance for doubtful accounts		(3,000,714)		(680,295)	(3,681,009)
Carrying amount	₩	<u>662,225,999</u>	₩	<u>-</u>	₩ <u>662,225,999</u>
December 31, 2014					
Original amount	₩	385,569,542	₩	70,295	₩ 385,639,837
Present value discount		(1,169,640)		-	(1,169,640)
Allowance for doubtful accounts		(6,109,868)		(70,295)	(6,180,163)
Carrying amount	₩	<u>378,290,034</u>	₩	<u>-</u>	₩ <u>378,290,034</u>

Details of other receivables as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Current			Non-current			Total
	Loans	Others (*1)	Sub-total	Loans	Deposits	Sub-total	
December 31, 2015							
Original amount	₩ 15,970,513	₩ 4,390,064	₩ 20,360,577	₩ 654,357	₩ 8,922,396	₩ 9,576,753	₩ 29,937,330
Present value discount	-	-	-	-	(193,728)	(193,728)	(193,728)
Allowance for doubtful accounts	(4,481,616)	(554,620)	(5,036,236)	-	(147,524)	(147,524)	(5,183,760)
Carrying amount	<u>₩ 11,488,897</u>	<u>₩ 3,835,444</u>	<u>₩ 15,324,341</u>	<u>₩ 654,357</u>	<u>₩ 8,581,144</u>	<u>₩ 9,235,501</u>	<u>₩ 24,559,842</u>
December 31, 2014							
Original amount	₩ 24,888,106	₩ 20,443,521	₩ 45,331,627	₩ 4,753,904	₩ 8,507,582	₩ 13,261,486	₩ 58,593,113
Present value discount	-	-	-	-	(183,516)	(183,516)	(183,516)
Allowance for doubtful accounts	(4,481,616)	(537,373)	(5,018,989)	-	(147,524)	(147,524)	(5,166,513)
Carrying amount	<u>₩ 20,406,490</u>	<u>₩ 19,906,148</u>	<u>₩ 40,312,638</u>	<u>₩ 4,753,904</u>	<u>₩ 8,176,542</u>	<u>₩ 12,930,446</u>	<u>₩ 53,243,084</u>

(*1) Others include non-trade receivables, accrued income and others.

Movements in the Group's bad debts allowance for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015	2014
Beginning	₩ 11,346,676	₩ 5,296,509
Changes in consolidation scope	-	7,871,807
Increase	841,945	3,637,756
Write-off	-	(602,934)
Decrease (*1)	(3,322,278)	(4,856,462)
Currency translation differences and others	(1,575)	-
Ending	<u>₩ 8,864,768</u>	<u>₩ 11,346,676</u>

(*1) Decrease in bad debts allowance is recognized as interest income (See Note 28).

The Group does not have any guarantees as at December 31, 2015.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

10. Inventories

Details of inventories as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015			December 31, 2014		
	Acquisition cost	Allowance for valuation losses	Carrying amounts	Acquisition cost	Allowance for valuation losses	Carrying amounts
Finished product	₩ 111,511,576	₩ (23,403)	₩ 111,488,173	₩ 121,618,413	₩ (2,872,992)	₩ 118,745,421
Work in process	4,473,363	-	4,473,363	1,500,383	-	1,500,383
Raw materials	49,174,169	(7,211,123)	41,963,046	23,906,406	(807,037)	23,099,369
Sub-materials	1,944,171	(9,216)	1,934,955	1,485,162	(7,974)	1,477,188
Merchandise	65,694,474	-	65,694,474	71,183,504	-	71,183,504
Analysis materials	156,996	-	156,996	121,565	-	121,565
Supplies	7,369,811	(7,396)	7,362,415	7,110,159	(6,845)	7,103,314
Materials in-transit	692,224	-	692,224	386,300	-	386,300
	₩ 241,016,784	₩ (7,251,138)	₩ 233,765,646	₩ 227,311,892	₩ (3,694,848)	₩ 223,617,044

The cost of inventories recognized as expense and included in cost of sales amounted to ₩200,498 million (2014: ₩116,319 million). Loss on valuation of inventories amounting to ₩8,210 million (2014: ₩2,173 million) is recognized during the year.

As at December 31, 2015, certain finished product, raw materials and sub-materials have been pledged as collateral for certain bank loans (See Note 16).

11. Associates

Details of associates of the Group as at December 31, 2015 are as follows (Korean won in thousands):

Associate	Equity interest	Domicile	Year-end
Boston Incubation Investment Association	25.00%	Republic of Korea	December
2014 Growth Ladder-IMM Venture Fund	20.00%	Republic of Korea	December

Details of valuation of investments in associates under the equity method for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

Associate	2015					
	January 1	Acquisitions	Disposals	Dividends received	Share of profit or loss	December 31
Boston Incubation Investment Association	₩ 1,557,001	₩ -	₩ (205,000)	₩ -	₩ (635,649)	₩ 716,352
2014 Growth Ladder-IMM Venture Fund	1,926,913	7,590,000	(2,216,400)	(770,200)	845,122	7,375,435
	₩ 3,483,914	₩ 7,590,000	₩ (2,421,400)	₩ (770,200)	₩ 209,473	₩ 8,091,787

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

11. Associates (cont'd)

Associate	2014					
	January 1	Acquisitions	Disposals	Changes in consolidation	Share of profit or loss	December 31
Boston Incubation Investment Association	₩ 2,450,311	₩ -	₩ (700,000)	₩ -	₩ (193,310)	₩ 1,557,001
2014 Growth Ladder-IMM Venture Fund	-	2,000,000	-	-	(73,087)	1,926,913
Celltrion Pharm, Inc. (*1)	53,952,781	-	-	(53,952,781)	-	-
	<u>₩ 56,403,092</u>	<u>₩ 2,000,000</u>	<u>₩ (700,000)</u>	<u>₩ (53,952,781)</u>	<u>₩ (266,397)</u>	<u>₩ 3,483,914</u>

(*1) Although the Company owns less than 50% of voting rights, Celltrion Pharm, Inc. is classified as a subsidiary considering the potential voting rights of stock warrants held by the Company.

Summarized financial information of associates as at December 31, 2015 and 2014, and for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

Associate	2015						
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Gain(loss) for the year	Total comprehensive gain(loss) for the year
Boston Incubation Investment Association	₩ 1,309,854	₩ 2,009,347	₩ 453,792	₩ -	₩ 50,433	₩ (2,542,596)	₩ (2,542,596)
2014 Growth Ladder-IMM Venture Fund	3,485,669	33,400,128	8,621	-	5,260,915	4,225,609	4,225,609
	<u>₩ 4,795,523</u>	<u>₩ 35,409,475</u>	<u>₩ 462,413</u>	<u>₩ -</u>	<u>₩ 5,311,348</u>	<u>₩ 1,683,013</u>	<u>₩ 1,683,013</u>

Associate	2014						
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Loss for the year	Total comprehensive loss for the year
Boston Incubation Investment Association	₩ 400,786	₩ 6,184,554	₩ 357,336	₩ -	₩ 63,797	₩ (773,241)	₩ (773,241)
2014 Growth Ladder-IMM Venture Fund	3,284,567	6,350,000	-	-	25,469	(365,433)	(365,433)
	<u>₩ 3,685,353</u>	<u>₩ 12,534,554</u>	<u>₩ 357,336</u>	<u>₩ -</u>	<u>₩ 89,266</u>	<u>₩ (1,138,674)</u>	<u>₩ (1,138,674)</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

11. Associates (cont'd)

Details of adjustments from financial information of associates to the book value of investments in associates for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

Associate	2015		
	Net assets at the end of the period	Net assets in investments	Carrying amount
Boston Incubation Investment Association	₩ 2,865,409	₩ 716,352	₩ 716,352
2014 Growth Ladder-IMM Venture Fund	36,877,176	7,375,435	7,375,435
	₩ 39,742,585	₩ 8,091,787	₩ 8,091,787

Associate	2014		
	Net assets at the end of the period	Net assets in investments	Carrying amount
Boston Incubation Investment Association	₩ 6,228,004	₩ 1,557,001	₩ 1,557,001
2014 Growth Ladder-IMM Venture Fund	9,634,567	1,926,913	1,926,913
	₩ 15,862,571	₩ 3,483,914	₩ 3,483,914

12. Property, plant and equipment

Changes in the carrying amounts of property, plant and equipment for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015								Accumulated depreciation
	January 1	Acquisitions	Transfer	Disposals	Depreciation	Others	December 31		
Land	₩ 291,448,358	₩ 135,277	₩ -	₩ -	₩ -	₩ -	₩ 291,583,635	₩ -	
Buildings	276,696,086	1,372,215	16,000	-	8,399,728	(4,062,577)	265,621,996	(36,317,714)	
Facilities	224,547,631	-	16,929,283	-	20,802,758	-	220,674,156	(112,478,152)	
Structures	14,870,105	8,000	12,455	-	924,315	(581,699)	13,384,546	(3,048,260)	
Machinery	14,108,177	1,581,837	64,207,362	885	5,414,375	(124,557)	74,357,559	(29,327,265)	
Vehicles	143,044	-	36,219	411	50,752	(2,932)	125,168	(252,291)	
Furniture	5,221,285	3,032,208	3,244,095	2,489	2,587,730	-	8,907,369	(12,929,363)	
Construction in progress	71,194,182	34,475,981	(85,752,542)	-	-	3,033,017	22,950,638	-	
	₩ 898,228,868	₩ 40,605,518	₩ (1,307,128)	₩ 3,785	₩ 38,179,658	₩ (1,738,748)	₩ 897,605,067	₩ (194,353,045)	

	2014								Accumulated depreciation
	January 1	Changes in consolidation scope	Acquisitions	Transfer	Disposals	Depreciation	Others	December 31	
Land	₩ 264,859,689	₩ 25,367,541	₩ 603,306	₩ 617,822	₩ -	₩ -	₩ 291,448,358	₩ -	
Buildings	177,135,838	2,484,898	533,490	102,233,158	183,933	5,507,365	276,696,086	(27,917,986)	
Facilities	244,204,564	133,804	24,544	-	44,840	19,770,441	224,547,631	(91,675,394)	
Structures	9,331,867	1,134,273	16,500	6,520,235	-	744,421	14,870,105	(2,295,491)	
Machinery	10,603,183	6,938,937	312,176	1,131,431	-	4,486,564	14,108,177	(24,052,007)	
Vehicles	107,320	9,514	94,228	-	-	52,610	143,044	(224,086)	
Furniture	6,183,107	920,976	269,761	196,603	1,457	2,347,705	5,221,285	(10,352,618)	
Construction in progress	4,058,515	114,022,044	56,811,976	(103,697,782)	-	-	71,194,182	-	
	₩ 716,484,083	₩ 151,011,987	₩ 58,665,981	₩ 7,001,467	₩ 230,230	₩ 32,909,106	₩ 898,228,868	₩ (156,517,582)	

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

12. Property, plant and equipment (cont'd)

Depreciation of property, plant and equipment for the years ended December 31, 2015 and 2014 is allocated as follows (Korean won in thousands):

	2015	2014
Cost of sales	₩ 28,677,935	₩ 27,350,296
Selling and administrative expenses	3,021,050	2,815,595
Development expenses	3,410,645	1,114,095
Transfer of construction in progress	3,070,028	1,629,120
	<u>₩ 38,179,658</u>	<u>₩ 32,909,106</u>

The carrying amounts of property, plant and equipment provided as collateral as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

Collateral (*1)	December 31, 2015	December 31, 2014
Land	₩ 283,412,958	₩ 290,472,728
Buildings	242,971,025	180,423,159
Facilities	220,664,275	224,475,934
Machinery	7,072,170	7,737,577

(*1) Collateral for borrowings and payment guarantees are pledged as joint security.

Details of borrowings and payment guarantees for which property, plant and equipment is provided as collateral as at December 31, 2015 and 2014 are as follows (Korean won in thousands and US dollar in thousands):

December 31, 2015			
Creditor	Borrowing amount	Guarantee amount	Collateral value
Shinhan Bank	₩ 169,407,121	USD 3,400	₩ 215,784,000
Woori Bank	116,334,462	USD 2,900	171,360,000
KEB Hana Bank	11,905,000	-	52,000,000
Korea Development Bank	115,647,542	-	120,000,000
Suhyup Bank	2,000,000	-	2,400,000
Industrial Bank of Korea	15,313,647	-	5,230,000
			USD 251
Nonghyup Bank	16,965,302	-	20,400,000
Cheong-ju City	-	-	2,306,900
December 31, 2014			
Creditor	Borrowing amount	Guarantee amount	Collateral value
Shinhan Bank	₩ 161,708,553	USD 3,400	₩ 215,784,000
Woori Bank	169,059,573	USD 2,900	231,360,000
KEB Hana Bank	17,143,000	-	52,000,000
Korea Development Bank	68,786,292	-	72,000,000
Suhyup Bank	2,000,000	-	2,400,000
Industrial Bank of Korea	18,296,578	-	5,230,000
			USD 251

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

13. Intangible Assets

Changes in the carrying amounts of intangible assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015							
	January 1, 2015	Acquisitions	Transfer	Disposals	Amortization	December 31, 2015	Accumulated amortization	Accumulated impairment loss
Goodwill	₩ 3,025,845	₩ -	₩ -	₩ -	₩ -	₩ 3,025,845	₩ -	₩ -
Software	1,530,710	402,763	1,307,128	-	696,983	2,543,618	(4,130,611)	-
Intellectual property	19,253,000	-	-	-	2,418,000	16,835,000	(25,042,800)	-
Development expenses	560,396,447	145,498,776	-	-	45,436,051	660,459,172	(114,579,606)	(1,068,756)
Other intangible assets (*1)	8,389,420	1,128	694,053	-	1,991,759	7,092,842	(1,242,966)	-
Facility usage rights	8,962,566	75,434	-	1,220,466	-	7,817,534	-	-
	<u>₩ 601,557,988</u>	<u>₩ 145,978,101</u>	<u>₩ 2,001,181</u>	<u>₩ 1,220,466</u>	<u>₩ 50,542,793</u>	<u>₩ 697,774,011</u>	<u>₩ (144,995,983)</u>	<u>₩ (1,068,756)</u>

	2014							
	January 1, 2014	Changes in consolidation scope	Acquisitions	Transfer	Amortization	December 31, 2014	Accumulated amortization	Accumulated impairment loss
Goodwill	₩ -	₩ 3,025,845	₩ -	₩ -	₩ -	₩ 3,025,845	₩ -	₩ -
Software	1,300,879	501,530	286,935	-	558,634	1,530,710	(3,433,628)	-
Intellectual property	21,671,000	-	-	-	2,418,000	19,253,000	(19,747,000)	-
Development expenses	471,520,882	11,564,151	118,780,064	-	41,468,650	560,396,447	(68,861,087)	(1,068,756)
Other intangible assets (*1)	206,373	9,552,518	20,985	315,530	1,705,986	8,389,420	(2,129,006)	-
Facility usage rights	7,802,027	1,160,539	-	-	-	8,962,566	-	-
	<u>₩ 502,501,161</u>	<u>₩ 25,804,583</u>	<u>₩ 119,087,984</u>	<u>₩ 315,530</u>	<u>₩ 46,151,270</u>	<u>₩ 601,557,988</u>	<u>₩ (94,170,721)</u>	<u>₩ (1,068,756)</u>

(*1) Identifiable intangible assets of exclusive rights for sales and development technology of products from Celltrion Pharm, Inc., a new consolidated subsidiary for the year ended December 31, 2014 are included.

The details of significant intangible assets as at December 31, 2015 are as follows:

	Description	Residual useful lives
Software	ERP and other operating support software	1 ~ 5 years
Intellectual property	Rights to manufacture biomedicine and antigen and usage of mass production technology	8 years
Development expenses	Development of products	3 ~ 15 years
Other intangible assets	Patents, Industrial property rights	1 ~ 5 years
Facility usage rights	Condominium, golf club membership	Indefinite

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

13. Intangible Assets (cont'd)

Material expenditures that are not recognized as assets because the Group does not exercise control, but from which future economic benefits are expected, for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015	2014
Marketing costs	₩ 10,730,150	₩ 9,002,758
Training costs	802,864	604,497

Amortization of intangible assets for the years ended December 31, 2015 and 2014 is allocated as follows (Korean won in thousands):

	2015	2014
Cost of sales	₩ 45,694,966	₩ 41,728,236
Selling and administrative expenses	4,780,132	4,384,685
Development expenses (*1)	55,213	31,375
Construction in progress	12,482	6,974
	<u>₩ 50,542,793</u>	<u>₩ 46,151,270</u>

(*1) The amount only includes amortization of software.

Among costs arising from the borrowings, the amounts included in the acquisition of intangible assets and property, plant, and equipment are ₩9,809 million (2014: ₩5,617 million) and ₩1,811 million (2014: ₩4,486 million), respectively. Borrowing costs were capitalized using the weighted average rate of its general borrowings of 5.60% (2014: 6.44%).

14. Other Assets

Details of other assets as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Current		
Advance payments	₩ 4,999,975	₩ 15,072,853
Prepaid expenses	3,795,015	2,977,048
Others	10,896,073	14,244,023
	<u>₩ 19,691,063</u>	<u>₩ 32,293,924</u>
Non-current		
Advance payments	₩ 1,530,179	₩ 1,227,330
Prepaid expenses	368,441	401,577
	<u>₩ 1,898,620</u>	<u>₩ 1,628,907</u>
	<u>₩ 21,589,683</u>	<u>₩ 33,922,831</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

15. Trade and Other Payables

Details of trade payables as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Trade payables	₩ 5,144,118	₩ 4,389,832

Details of other payables as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Current		
Non-trade payables	₩ 17,324,532	₩ 42,215,496
Accrued expenses	33,511,200	27,434,234
Value added tax withheld	9,858,453	6,293,930
Dividends payable	10,846	11,560
	<u>₩ 60,705,031</u>	<u>₩ 75,955,220</u>
Non-current		
Non-trade payables	₩ 978,000	₩ 675,000
	<u>₩ 61,683,031</u>	<u>₩ 76,630,220</u>

16. Financial Liabilities

Details of the book value of financial liabilities as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Current		
Short-term borrowings	₩ 324,725,626	₩ 263,895,745
Current portion of long-term borrowings	144,950,600	140,188,320
Current portion of convertible bonds	55,276,785	-
Derivative financial liabilities	15,549,642	-
Sub total	<u>₩ 540,502,653</u>	<u>₩ 404,084,065</u>
Non-current		
Long-term borrowings	₩ 157,581,800	₩ 198,770,680
Convertible bonds	15,089,055	242,597,328
Exchangeable bonds	98,237,665	-
Derivative financial liabilities	-	37,926,102
Sub total	<u>270,908,520</u>	<u>479,294,110</u>
Total	<u>₩ 811,411,173</u>	<u>₩ 883,378,175</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

16. Financial Liabilities (cont'd)

Details of borrowings as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	Creditor	Latest maturity date	Annual interest rate (%)	Carrying amount	
			December 31, 2015	December 31, 2015	December 31, 2014
Current liabilities					
Short-term borrowings					
General term loans			Bank debenture (6 month) + 2.10%	₩ 20,000,000	₩ 20,000,000
	Shinhan Bank	August 1, 2016	Bank debenture (6 month) + 2.20%	7,000,000	7,000,000
	Shinhan Bank	March 3, 2016	Industrial financial debentures + 1.35%	15,000,000	15,000,000
	Shinhan Bank	March 15, 2016	Bank debenture (6 month) + 2.20%	10,000,000	10,000,000
	Shinhan Bank	August 29, 2016	Bank debenture (6 month) + 2.10%	15,000,000	15,000,000
	Shinhan Bank	November 22, 2016	Bank debenture (6 month) + 1.80%	8,000,000	-
	Shinhan Bank	May 19, 2016	Bank debenture (6 month) + 1.80%	10,000,000	-
	Shinhan Bank	March 6, 2016	Libor + 1.10%	3,489,624	-
	Shinhan Bank	May 10, 2016	Libor + 1.10%	1,105,047	-
	Shinhan Bank	April 27, 2016	Floating-rate loans (6M) + 2.14%	30,000,000	30,000,000
	Woori Bank	July 25, 2016	Koribor (3 month) + 1.89%	20,000,000	20,000,000
	Woori Bank	April 1, 2016	-	-	1,738,296
	Woori Bank	-	Koribor + 3.67%	2,000,000	2,000,000
	Woori Bank	February 29, 2016	Libor + 1.10%	3,954,907	3,781,577
	Woori Bank	June 16, 2016	Libor + 1.10%	3,373,303	3,225,463
	Woori Bank	July 8, 2016	Libor + 1.30%	348,962	-
	Woori Bank	February 11, 2016	Industrial financial debentures (one year) + 2.11%	5,000,000	5,000,000
	Korea Development Bank	May 20, 2016	Industrial financial debentures (one year) + 2.10%	5,000,000	5,000,000
	Korea Development Bank	December 10, 2016	Industrial financial debentures (one year) + 2.17%	20,000,000	20,000,000
	Korea Development Bank	November 2, 2016	3.36%	3,000,000	3,000,000
	Industrial Bank of Korea	September 18, 2016	-	-	997,571
	Industrial Bank of Korea	-	4.83%	4,000,000	4,000,000
	Industrial Bank of Korea	November 6, 2016	3.76%	10,000,000	-
	Kookmin Bank	March 31, 2016	-	-	1,000,000
	Kookmin Bank	-	-	-	-
	Korea EXIM Bank	-	-	-	3,336,686

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

16. Financial Liabilities (cont'd)

	Creditor	Latest maturity date	Annual interest rate (%)	Carrying amount	
			December 31, 2015	December 31, 2015	December 31, 2014
Current liabilities					
Short-term borrowings					
General term loans	Korea EXIM Bank	November 30, 2016	Libor + 1.87%	₩ 1,163,208	₩ 1,112,229
	Suhyup Bank	October 23, 2016	Mor 3M + 3.11%	2,000,000	2,000,000
Loans for import financing	Korea EXIM Bank	June 29, 2016	3.14%	15,000,000	10,000,000
	Korea EXIM Bank	December 23, 2016	3.12%	15,000,000	15,000,000
Loans for export financing	Korea EXIM Bank	December 23, 2016	3.18%	25,000,000	20,000,000
Note discount (*1)	Industrial Bank of Korea	December 26, 2016	3.94%~4.09%	7,966,246	8,984,923
	Nonghyup Bank	October 27, 2016	4.54%~4.59%	1,965,302	-
D/A discount	Industrial Bank of Korea	June 23, 2016	2.10%~3.10%	301,107	1,114,314
Loans on securities collateral	Golden Bridge Investment Securities Co.,Ltd.	-	-	-	8,000,000
	Dongbu Securities Co.,Ltd.	-	-	-	5,000,000
Usance	Woori Bank	March 18, 2016	1.46%~4.86%	14,776,962	3,610,073
	Shinhan Bank	May 31, 2016	1.33%~1.75%	19,587,121	10,008,553
	Korea Development Bank	April 18, 2016	0.86%~1.26%	25,647,542	8,786,291
	Industrial Bank of Korea	January 6, 2016	2.43%	46,295	199,769
				₩ 324,725,626	₩ 263,895,745

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

16. Financial Liabilities (cont'd)

	Creditor	Latest maturity date	Annual interest rate (%)	Carrying amount			
			December 31, 2015	December 31, 2015	December 31, 2014		
Current maturities of long-term borrowings							
General term loans	Korea Development Bank	September 14, 2016	Industrial financial debentures (one year) + 2.37%	₩	40,000,000	₩	40,000,000
	Shinhan Bank	October 19, 2016	4.17%		20,000,000		-
Facility loans	Shinhan Bank	June 15, 2016	Korea Development Bank notification rate + 1.94%		20,000,000		20,000,000
	Shinhan Bank	November 14, 2016	Bank debenture (6 month) + 2.40%		9,880,000		9,880,000
	Shinhan Bank	September 25, 2016	Bank debenture (6 month) + 2.64%		10,000,000		10,000,000
	Woori Bank	December 26, 2016	Floating-rate loans (6M) + 2.34%		7,600,000		7,600,000
	Woori Bank	December 28, 2016	Floating-rate loans (6M) + 2.34%		6,000,000		6,000,000
	Woori Bank	-	-		-		14,285,720
	KEB Hana Bank	August 16, 2016	Market rate linked to prime rate + 1.18%		4,762,000		5,714,000
Borrowing for childcare facilities for employees	Woori Bank	December 20, 2016	1.00%		42,000		42,000
R&D financing	Korea Development Bank	November 11, 2016	Korea Finance Corporation debenture (1 year) + 1.87%		16,666,600		16,666,600
Export financing for technology development	Korea EXIM Bank	August 29, 2016	Koribor (3 month) + 1.58%		10,000,000		10,000,000
				₩	144,950,600	₩	140,188,320
Non-current liabilities							
Long-term borrowings							
General term loans	Shinhan Bank	-	-		-		20,000,000
	Korea Development Bank	-	-		-		20,000,000
	Korea Development Bank	June 19, 2017	3.83%		20,000,000		-
	IBK Capital	August 28, 2017	4.60%		12,000,000		-
	KDB Capital	August 28, 2017	4.60%		12,000,000		-

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

16. Financial Liabilities (cont'd)

	Creditor	Latest maturity date	Annual interest rate (%)	Carrying amount			
			December 31, 2015	December 31, 2015	December 31, 2014		
Non-current liabilities							
Long-term borrowings							
Facility loans	Shinhan Bank	-	-	₩	-	₩	10,000,000
			Bank debenture (6 month) +				
	Shinhan Bank	May 14, 2017	2.40%		4,940,000		14,820,000
	Korea Development Bank	June 17, 2022	4.20%		30,000,000		-
	Korea Development Bank	June 17, 2022	4.20%		10,000,000		-
	Nonghyup Bank	June 17, 2022	4.27%		15,000,000		-
	KEB Hana Bank	August 27, 2017	Market rate linked to prime rate + 1.9%		7,143,000		11,429,000
	Woori Bank	December 24, 2019	Floating-rate loans (6M) + 2.34%		22,800,000		30,400,000
	Woori Bank	June 28, 2019	Floating-rate loans (6M) + 2.34%		15,000,000		21,000,000
	Woori Bank	-	-		-		35,714,280
Export financing for technology development	Korea EXIM Bank	-	-		-		10,000,000
	Korea Development Bank	May 11, 2017	Korea Finance Corporation debenture (1 year) + 1.87%		8,333,300		24,999,900
R&D financing	Woori Bank	September 20, 2019	1.00%		115,500		157,500
Borrowing for childcare facilities for employees	Woori Bank	December 20, 2021	1.00%		250,000		250,000
				₩	157,581,800	₩	198,770,680
				₩	627,258,026	₩	602,854,745

(*1) The Group entered into a trade receivable factoring agreement with the bank. Trade receivables are provided as collateral in relation to the Group's factoring. The factored amount was accounted for as borrowing because the Group is responsible for the payment to the bank in case of uncollected receivables.

As at December 31, 2015, the entity which exercises significant influence on the Group and the largest shareholder of the entity has provided payment guarantee for some of the above borrowings (See Note 34).

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

16. Financial Liabilities (cont'd)

Convertible bonds issued on March 27, 2013 are as follows (Korean won in thousands and US dollar in thousands, except per share):

Face value	At issuance	₩	332,370,000 (USD 300,000)
	As at December 31, 2015		45,415,000 (USD 38,750)
Discounts	At issuance		6,476,956
	As at December 31, 2015		441,610
Adjustment of conversion consideration (*1)	At issuance		70,190,295
	As at December 31, 2015		4,785,660
Types and quantities of shares at conversion	At issuance		4,613,427 registered ordinary shares
	As at December 31, 2015 (*2)		643,419 registered ordinary shares
Nominal interest rate			2.75%
Interest payment			Annual interests paid twice on the sixth and twelfth months from the issuance date.
Redemption method at maturity			Redemption of principal and interest at maturity if no early redemption of convertible debts or conversion occurs until maturity.
Claim for put option by bond holders			Call options by the Company and put options by the bond holders.
Conversion period			September 27, 2014 ~ March 16, 2018
Conversion price (*3)			₩ 65,418 per share

(*1) Embedded derivatives on the convertible bonds are separated from the host instrument bond and recognized as derivative liabilities.

(*2) The quantity of the shares changed as a result of the buy-back, stock dividends and exercise of convertible rights.

(*3) The conversion price of convertible bonds is adjusted according to the terms and conditions of the bond when the equity securities are issued at discount, cash or stock dividend is paid, or capital reduction, reversal of reserve, stock split or reverse stock split occur.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

16. Financial Liabilities (cont'd)

Details of convertible bonds that Celltrion Pharm, Inc., a subsidiary of the Company, issued on February 27, 2015 are as follows (Korean won in thousands, except per share):

Face value	At issuance	₩	30,000,000
	As at December 31, 2015		30,000,000
Premium on bonds	At issuance		5,722,960
	As at December 31, 2015		5,722,960
Adjustment of conversion consideration (*1)	At issuance		6,843,392
	As at December 31, 2015		5,544,850
Types and quantities of shares at exchange	At issuance	2,260,738 registered ordinary shares	
	As at December 31, 2015 (*2)	2,373,417 registered ordinary shares	
Nominal interest rate			1.50%
Guaranteed rate of return			5.90%
Interest payment		February 26, May 26, August 26 and November 26 (annually)	
Redemption method at maturity		Guaranteed rate of return less nominal interest rate would be computed at compound interest method from the next day of bond issuance date, and the amount would be added to face amount and paid at maturity.	
Acceleration clause		If early redemption occurs, residual interest amount will be deducted interest payments received until the early redemption date from the daily compounding at 10% of annual interest rate with the outstanding face value of convertible bonds for the period from the date of the issuance date till early redemption date	
Claim for put option by bond holders		50% of convertible bonds after 1 year, 100% of convertible bonds after 2 years from issuance date are claimable.	
Conversion period		February 26, 2016 ~ February 25, 2019	
Conversion price (*3)		₩12,640 per share	

(*1) The fair value of liability component of the convertible bonds was determined by the market interest rate of the bonds without the conversion rights on the same terms. The residual amount, after deducting liability component from the issuance amount, represents the value of conversion rights and net amount after tax effect is recorded in equity.

(*2) Number of shares to be issued has been changed due to stock dividends after the acquisition of convertible bonds.

(*3) The conversion price of convertible bonds is adjusted according to the terms and conditions of the bonds when stock price decreases, equity securities are issued at discount, stock dividend is paid, or capital reduction, reversal of reserve, stock split or reverse stock split occur.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

16. Financial Liabilities (cont'd)

Changes in the derivative financial liabilities for years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015			
	Beginning balance	Conversion (*1)	Evaluation (*1)	Ending balance
Consideration for conversion rights and other rights	₩ 37,926,102	₩ (32,105,760)	₩ 9,729,300	₩ 15,549,642

	2014			
	Beginning balance	Increase	Evaluation	Ending balance
Consideration for conversion rights and other rights	₩ 33,224,237	₩ -	₩ 4,701,865	₩ 37,926,102

(*1) Loss on valuation and conversion related to derivative financial liabilities is recognized as other expenses.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

16. Financial Liabilities (cont'd)

Exchangeable bonds issued on June 19, 2015 are as follows (Korean won in thousands except per share):

Face value	At issuance	₩	112,000,000
	As at December 31, 2015		106,000,000
Premium on bonds	At issuance		10,452,198
	As at December 31, 2015		9,892,258
Discounts	At issuance		556,600
	As at December 31, 2015		442,866
Adjustment of exchange consideration (*1)	At issuance		21,631,926
	As at December 31, 2015		17,211,727
Types and quantities of shares at exchange	At issuance		1,356,918 treasury shares
	As at December 31, 2015		1,484,158 treasury shares
Nominal interest rate			2.00%
Interest payment		March 19, June 19, September 19 and December 19 (annually)	
Redemption method at maturity		1) Redemption of principal and interest at maturity if no exchange occurs until maturity. 2) For the parts of bonds not exchanged, interests paid until maturity and those computed at annual interest 5.0% will be deducted from the face value of the bonds computed at guaranteed-yield-to-maturity from issuance date to maturity and the amounts will be paid at maturity.	
Claim for put option by bond holders		Put options by the bond holders	
Exchange period		December 19, 2015 ~ May 19, 2018	
Exchange price (*2)		₩ 71,421 per share	

(*1) The fair value of the liability component of the exchangeable bonds was determined by market interest rate of the bonds without exchange rights at identical terms. The residual amount, after deducting the liability component from the issuance amount, represents the value of exchangeable rights and net amount after tax effect is recorded in equity.

(*2) The exchange price of exchangeable bonds is adjusted according to the terms and conditions of the bonds when equity securities are issued at discount, cash dividend is paid, stock dividend is paid, capital reduction, reversal of reserve, stock split or reverse stock split occur.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

17. Provisions

The Group recognizes provisions for sales returns and changes in provisions for sales returns for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015			
	January 1	Increase	Decrease	December 31
Provisions for sales returns	₩ 698,079	₩ 261,705	₩ (207,323)	₩ 752,461

	2014				
	January 1	Changes in consolidation scope	Increase	Decrease	December 31
Provisions for sales returns	₩ -	₩ 693,793	₩ 348,980	₩ (344,694)	₩ 698,079

18. Other Current liabilities

Details of other current liabilities as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Advance received	₩ 13,072,624	₩ 3,505,747
Government grants	3,582,954	175,090
	<u>₩ 16,655,578</u>	<u>₩ 3,680,837</u>

19. Government Grants

Details of development works in progress which received government grants as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		
	Received	Repayable (*1)	Un-repayable
Project of trans-governmental enterprise for pandemic influenza in Korea	₩ 880,000	₩ 264,000	₩ 616,000
Project for development of oriental medicine cosmetics	80,000	24,000	56,000
Project for research and development of new materials and technologies of global cosmetics	50,000	15,000	35,000
Project for antibody development of restraining active C5	100,000	-	100,000
Transgenic soybean development for manufacture of functional cosmetic materials	90,000	-	90,000
Therapeutic antibody development for MERS Corona virus	150,000	-	150,000
Investment attraction subsidy from Chung-ju City	3,000,000	-	3,000,000
	<u>₩ 4,350,000</u>	<u>₩ 303,000</u>	<u>₩ 4,047,000</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

19. Government grants (cont'd)

	2014		
	Received	Repayable (*)	Un-repayable
Project of trans-governmental enterprise for pandemic influenza in Korea	₩ 500,000	₩ 150,000	₩ 350,000
Project for development of oriental medicine cosmetics	80,000	24,000	56,000
Project for research and development of new materials and technologies of global cosmetics	50,000	15,000	35,000
Project for antibody development of restraining active C5	100,000	-	100,000
	<u>₩ 730,000</u>	<u>₩ 189,000</u>	<u>₩ 541,000</u>

(*1) Repayable government grants are the amounts that will be paid with fixed engineering fee and presented as other long-term liabilities (See Note 15).

Movements in repayable government grants for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		
	January 1	Received	December 31
Project of trans-governmental enterprise for pandemic influenza in Korea	₩ 636,000	₩ 264,000	₩ 900,000
Project for development of oriental medicine cosmetics	24,000	24,000	48,000
Project for research and development of new materials and technologies of global cosmetics	15,000	15,000	30,000
	<u>₩ 675,000</u>	<u>₩ 303,000</u>	<u>₩ 978,000</u>

	2014		
	January 1	Received	December 31
Project of trans-governmental enterprise for pandemic influenza in Korea	₩ 486,000	₩ 150,000	₩ 636,000
Project for development of oriental medicine cosmetics	-	24,000	24,000
Project for research and development of new materials and technologies of global cosmetics	-	15,000	15,000
	<u>₩ 486,000</u>	<u>₩ 189,000</u>	<u>₩ 675,000</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

19. Government grants (cont'd)

Movements in unrepayable government grants for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015			
	January 1	Received	Used (*1)	December 31
Project of trans-governmental enterprise for pandemic influenza in Korea	₩ 84,040	₩ 616,000	₩ 352,385	₩ 347,655
Project for development of oriental medicine cosmetics	56,038	56,000	61,770	50,268
Project for research and development of new materials and technologies of global cosmetics	35,006	35,000	35,001	35,005
Project for antibody development of restraining active C5	6	100,000	100,002	4
Transgenic soybean development for manufacture of functional cosmetic materials	-	90,000	89,978	22
Therapeutic antibody development for MERS Corona virus	-	150,000	-	150,000
Investment attraction subsidy from Chung-ju City	-	3,000,000	-	3,000,000
	<u>₩ 175,090</u>	<u>₩ 4,047,000</u>	<u>₩ 639,136</u>	<u>₩ 3,582,954</u>

	2014			
	January 1	Received	Used (*1)	December 31
Project of trans-governmental enterprise for pandemic influenza in Korea	₩ 79,726	₩ 350,000	₩ 345,686	₩ 84,040
Project for development of oriental medicine cosmetics	-	56,000	(38)	56,038
Project for research and development of new materials and technologies of global cosmetics	-	35,000	(6)	35,006
Project for antibody development of restraining active C5	-	100,000	99,994	6
	<u>₩ 79,726</u>	<u>₩ 541,000</u>	<u>₩ 445,636</u>	<u>₩ 175,090</u>

(*1) The amount represents net expenditure after deduction of interest income.

The used portion of unrepayable government grants was directly deducted from expenses incurred.

20. Income tax expense and deferred tax

Income tax expense for the years ended December 31, 2015 and 2014 consists of (Korean won in thousands):

	2015	2014
Current tax:		
Current tax on profits for the year	₩ 48,268,077	₩ 15,198,185
	<u>48,268,077</u>	<u>15,198,185</u>
Deferred tax:		
Origination and reversal of temporary differences	₩ 4,955,879	₩ 15,405,141
Tax credit carryforwards	(23,263,197)	(4,758,967)
	<u>(18,307,318)</u>	<u>10,646,174</u>
Deferred tax charged directly to equity	(25,131,646)	5,785,217
Income tax expense	<u>₩ 4,829,113</u>	<u>₩ 31,629,576</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

20. Income tax expense and deferred tax (cont'd)

The reconciliation between income tax expense and profit before income tax for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
Profit before income tax	₩ 163,110,863	₩ 149,111,204
Tax calculated based on applicable tax rate	₩ 39,010,829	₩ 35,622,911
Adjustments for:		
Expenses not deductible for tax purposes	3,667,248	4,310,606
Recognized deferred income tax for tax credit in the current year	(38,843,470)	(11,889,384)
Unrecognized temporary difference	1,065,637	2,306,943
Others	(71,131)	1,278,500
Income tax expense	<u>₩ 4,829,113</u>	<u>₩ 31,629,576</u>
Effective tax rate (income tax expense / profit before income tax)	2.96%	21.21%

The analysis of deferred tax assets and deferred tax liabilities as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Deferred tax assets		
Deferred tax asset to be recovered after 12 months	₩ 72,710,612	₩ 48,141,582
Deferred tax asset to be recovered within 12 months	27,136,223	27,521,208
	<u>₩ 99,846,835</u>	<u>₩ 75,662,790</u>
	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	₩ (77,568,563)	₩ (70,244,561)
Deferred tax liability to be recovered within 12 months	(187,709)	(1,634,985)
	<u>₩ (77,756,272)</u>	<u>₩ (71,879,546)</u>
Net deferred tax assets (liabilities)	<u>₩ 22,090,563</u>	<u>₩ 3,783,244</u>

Changes in the carrying amount of deferred income tax assets (liabilities) for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 3,783,244	₩ 14,570,672
Changes in consolidation scope	-	(141,254)
Charged (credited) to the statement of income	19,232,202	(10,842,543)
Charged (credited) to other comprehensive income	(924,883)	196,369
Ending balance	<u>₩ 22,090,563</u>	<u>₩ 3,783,244</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

20. Income tax expense and deferred tax (cont'd)

Movements in deferred income tax assets and liabilities for the years ended December 31, 2015 and 2014, without taking into consideration the offsetting of balances within the same jurisdiction are as follows (Korean won in thousands):

	2015			Ending balance
	Beginning balance	Charged (credited) to the statement of income	Charged (credited) to other comprehensive income	
Deferred tax assets				
Tax credit carryforwards	₩ 54,784,792	₩ 21,413,345	₩ -	₩ 76,198,137
Accrued expenses	803,788	(187,713)	-	616,075
Inventory valuation loss	1,360,513	401,538	-	1,762,051
Intangible assets amortization disallowance	67,949	(58,829)	-	9,120
Valuation of fair value	11,306,436	(4,399,537)	-	6,906,899
Others	7,339,312	7,015,241	-	14,354,553
	<u>₩ 75,662,790</u>	<u>₩ 24,184,045</u>	<u>₩ -</u>	<u>₩ 99,846,835</u>
Deferred tax liabilities				
Land (revaluation gain)	₩ (49,665,094)	₩ -	₩ -	₩ (49,665,094)
Property, plant and equipment	(5,585,175)	180,716	-	(5,404,459)
Depreciation disallowance	(40,250)	(7,303,087)	-	(7,343,337)
Development costs	(2,497,107)	1,982,868	-	(514,239)
Valuation fair value	-	(264,430)	(924,883)	(1,189,313)
Exchangeable bonds (exchange rights adjustment)	-	(4,165,238)	-	(4,165,238)
Share of loss (gain) of associates	(212,906)	212,906	-	-
Convertible bonds (conversion rights adjustment)	(9,836,237)	8,678,107	-	(1,158,130)
Others	(4,042,777)	₩ (4,273,685)	₩ -	₩ (8,316,462)
	<u>₩ (71,879,546)</u>	<u>₩ (4,951,843)</u>	<u>₩ (924,883)</u>	<u>₩ (77,756,272)</u>
Net deferred tax assets	<u>₩ 3,783,244</u>	<u>₩ 19,232,202</u>	<u>₩ (924,883)</u>	<u>₩ 22,090,563</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

20. Income tax expense and deferred tax (cont'd)

	2014				
	Beginning balance	Changes in consolidation scope	Charged (credited) to the statement of income	Charged (credited) to other comprehen- sive income	Ending balance
Deferred tax assets					
Tax credit carryforwards	₩ 47,612,949	₩ 2,412,874	₩ 4,758,969	₩ -	₩ 54,784,792
Accrued expenses	3,225,894	82,907	(2,505,013)	-	803,788
Inventory valuation loss	813,943	15,420	531,150	-	1,360,513
Intangible assets amortization disallowance	70,218	-	(2,269)	-	67,949
Valuation fair value	9,960,262	(2,564,154)	3,910,328	-	11,306,436
Share of loss (gain) of associates	12,026	-	(12,026)	-	-
Share of other comprehensive income of associates	7,578	-	-	(7,578)	-
Others	27,050,972	6,272,626	(25,214,045)	-	8,109,553
	<u>₩ 88,753,842</u>	<u>₩ 6,219,673</u>	<u>₩ (18,532,906)</u>	<u>₩ (7,578)</u>	<u>₩ 76,433,031</u>
Deferred tax liabilities					
Land (revaluation gain)	₩ (49,665,094)	₩ -	₩ -	₩ -	₩ (49,665,094)
Property, plant and equipment	(4,347,398)	(171,215)	(1,066,562)	-	(5,585,175)
Depreciation disallowance	256,436	-	(296,686)	-	(40,250)
Development costs	(7,078,839)	(23,019)	4,604,751	-	(2,497,107)
Valuation fair value	(168,829)	-	(35,118)	203,947	-
Share of loss (gain) of associates	(212,906)	-	-	-	(212,906)
Convertible bonds (conversion rights adjustment)	(12,475,920)	-	2,639,683	-	(9,836,237)
Others	(490,620)	(6,166,693)	1,844,295	-	(4,813,018)
	<u>₩ (74,183,170)</u>	<u>₩ (6,360,927)</u>	<u>₩ 7,690,363</u>	<u>₩ 203,947</u>	<u>₩ (72,649,787)</u>
Net deferred tax assets	<u>₩ 14,570,672</u>	<u>₩ (141,254)</u>	<u>₩ (10,842,543)</u>	<u>₩ 196,369</u>	<u>₩ 3,783,244</u>

The feasibility of deferred income tax assets depends on the various factors such as ability of the Group to generate taxable profit during the period the temporary difference can be utilized, the economic environment and the prospect of the industry. The Group considers those factors periodically. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized, excluding deductible temporary differences related to subsidiaries and available-for-sale financial assets amounting to ₩22,751 million (2014: ₩19,035 million). In addition, deferred tax liabilities for temporary differences of goodwill amounting to ₩3,025 million (2014: ₩3,025 million) are not recognized.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

20. Income tax expense and deferred tax (cont'd)

The income tax charged (credited) directly to equity for the years ended December 31, 2015 and 2014 are as follows:

	December 31, 2015			December 31, 2014		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Change in value of available-for-sale financial assets	₩ 3,814,988	₩ (924,883)	₩ 2,890,105	₩ (842,757)	₩ 203,947	₩ (638,810)
Change in disposal of treasury stock	-	-	-	(25,758,711)	6,233,608	(19,525,103)
Change in investments in equity method	-	-	-	31,314	(7,578)	23,736
Equity component of compound financial instruments	13,851,492	(3,293,282)	10,558,210	2,930,726	(644,760)	2,285,966
Conversion of convertible bonds	86,419,342	(20,913,481)	65,505,861	-	-	-

The expiration of tax credit carryforwards is as follows (Korean won in thousands):

	2015		2014	
Within 1 year	₩	3,069,766	₩	4,271,725
Within 2 years		5,496,193		4,440,709
Within 3 years		12,549,189		18,467,874
Over 3 years		55,082,989		27,604,484
	₩	76,198,137	₩	54,784,792

21. Capital stock

The Group is authorized to issue 400,000,000 shares (₩1,000 per share), of which 112,431,663 common shares have been issued as at December 31, 2015.

Changes in capital stock for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands, except shares):

	Number of shares	Issued capital	Share premium	Total
As at January 1, 2014	100,503,857	₩ 100,503,857	₩ 370,966,449	₩ 471,470,306
Stock dividends	2,942,003	2,942,003	-	2,942,003
Exercise of stock warrants	123,911	123,911	3,635,179	3,759,090
As at December 31, 2014	103,569,771	103,569,771	374,601,628	478,171,399
As at January 1, 2015	103,569,771	₩ 103,569,771	₩ 374,601,628	₩ 478,171,399
Stock dividends	5,105,283	5,105,283	-	5,105,283
Exercise of stock warrants	207,713	207,713	9,372,124	9,579,837
Conversion of convertible bonds	3,548,896	3,548,896	263,212,637	266,761,533
As at December 31, 2015	112,431,663	₩ 112,431,663	₩ 647,186,389	₩ 759,618,052

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

22. Retained earnings

Retained earnings as at December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
Legal reserves			
Legal appropriated retained earnings (*1)	₩ 2,281,397	₩	2,281,397
Discretionary appropriated retained earnings (*2)			
Reserve for R&D	674,081,924		551,126,823
Reserve for facilities	160,117,927		160,117,927
Unappropriated retained earnings	157,543,513		131,514,285
	<u>₩ 994,024,761</u>	<u>₩</u>	<u>845,040,432</u>

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

(*2) The discretionary appropriated retained earnings are available to be distributed by the shareholders' approval.

The stock dividend, amounting ₩5,105 million (number of outstanding common stocks: 5,105,283), for the year ended December 31, 2014 was transferred to issued capital on March 20, 2015.

The dividend, amounting ₩3,328 million (number of outstanding common stocks: 3,328,350), for the year ended December 31, 2015 is expected to be proposed at the shareholders' meeting on March 25, 2016. The dividend is not included in the consolidated financial statements of the Group.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

23. Accumulated other comprehensive income and other components of equity

Changes in accumulated other comprehensive income for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		
	Beginning balance	Decrease	Ending balance
Available-for-sale assets – equity securities	₩ (110,000)	₩ 2,921,910	₩ 2,811,910
Currency translation differences	3,545,597	2,154,959	5,700,556
	<u>₩ 3,435,597</u>	<u>₩ 5,076,869</u>	<u>₩ 8,512,466</u>
	2014		
	Beginning balance	Increase (decrease)	Ending balance
Available-for-sale assets – equity securities	₩ 494,748	₩ (604,748)	₩ (110,000)
Available-for-sale assets – investment bonds	34,062	(34,062)	-
Share in other comprehensive income of associates	(23,736)	23,736	-
Currency translation differences	(410,719)	3,956,316	3,545,597
	<u>₩ 94,355</u>	<u>₩ 3,341,242</u>	<u>₩ 3,435,597</u>

Changes in accumulated other comprehensive income represent net of tax effect amounts.

Other components of equity as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	December 31, 2015	December 31, 2014
Treasury stock (*1)	₩ (82,868,895)	₩ (81,336,477)
Stock options	13,493,426	11,237,753
Other capital surplus (*2)	1,453,819	(9,154,314)
	<u>₩ (67,921,650)</u>	<u>₩ (79,253,038)</u>

(*1) Disposal of 1,484,158 treasury share is restricted in relation to the exchangeable bonds issued.

(*2) The value of exchange rights on the exchangeable bonds is recorded in equity, net of tax effect (See Note 16).

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

23. Accumulated other comprehensive income and other components of equity (cont'd)

Changes in treasury stock for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands, except shares):

	<u>Number of shares</u>		<u>Amount</u>
January 1, 2014	2,437,083	₩	135,852,397
Acquisition of treasury stock (*1)	27,017		1,242,792
Disposal	(1,000,000)		(55,758,712)
December 31, 2014	1,464,100	₩	81,336,477
January 1, 2015	1,464,100		81,336,477
Acquisition of treasury stock (*1)	22,535		1,532,418
December 31, 2015	<u>1,486,635</u>	₩	<u>82,868,895</u>

(*1) The number of shares included fractional shares in accordance with stock dividends.

There is no treasury stock provided as collateral for borrowings as at December 31, 2015 and treasury stock provided as collateral for borrowings as at December 31, 2014 was as follows (Korean won in thousands, except shares):

	<u>Commitment amount</u>		<u>Loan balance</u>		<u>Number of shares</u>
Golden Bridge Investment Securities Co., Ltd.	₩ 8,000,000	₩	8,000,000		368,429
Dongbu Securities Co., Ltd.	5,000,000		5,000,000		252,206
	<u>₩ 13,000,000</u>	₩	<u>13,000,000</u>		<u>620,635</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

24. Share-based payment

Share options are granted to the Company's directors and employees as follows:

- Stocks issued through share option: registered common stock
- Grant method: new shares of common stock
- Vesting period: options are conditional on the Company's director and employee completing a three-year service after the grant date. The options have a contractual option term of five years at the rate of 20% per annum.

Movements in the number of share options outstanding and their related weighted average exercise prices for the year ended December 31, 2015 are as follows (Korean won in thousands, except shares):

	<u>Options (unit: share) (*1)</u>		<u>Weighted average exercise price per share option (*1)</u>
Beginning	1,468,970	₩	39,581
Grant	286,503		66,941
Exercise	(207,713)		33,426
Forfeited	(106,737)		49,331
Ending	<u>1,441,023</u>	₩	<u>45,186</u>

(*1) Adjustment of stock dividends during the year.

Out of the 1,441,023 outstanding options, 81,731 options were exercisable. Options exercised in 2015 resulted in 207,713 shares being issued at a weighted average price of ₩33,426 each. The related weighted average share price at the time of exercise was ₩77,937 per share.

The weighted average fair value of options granted during the period using the Black-Scholes valuation model as at December 31, 2015 and 2014 were determined as follows (Korean won, except shares):

	<u>14th</u>		<u>15th</u>	
Weighted average share price at the grant date (*1)	₩	43,269	₩	65,074
Exercise price (*1)	₩	42,504	₩	66,941
unit: share (*1)		368,412		286,503
Annual risk-free interest rate (*2)		2.89%~3.32%		1.82%~2.04%
Price volatility		44.1% ~ 47.2%		43.9%~49.0%
Expected option life (years)		3.1 ~ 7.1		3.1 ~ 7.1
Expected expiration of rights		4.0%		4.3%
Certification date		2014-03-27		2015-03-20
Assessment date		2014-03-27		2015-03-20
Date to exercise		2017-05-01 ~ 2021-04-29		2018-04-25 ~ 2022-04-25
Maturity		2024-03-26		2025-03-19

(*1) It is adjusted reflecting effects of stock dividends during the current period.

(*2) Risk-free interest rate was calculated by a maturity schedule of government bonds.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

24. Share-based payment (cont'd)

Changes in share options for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
Beginning	₩ 11,237,753	₩	8,230,452
Cost	4,921,378		4,395,579
Exercised and canceled	(2,665,705)		(1,388,278)
Ending	<u>₩ 13,493,426</u>	<u>₩</u>	<u>11,237,753</u>

25. Revenue and cost of sales

Details of revenue for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
Sales of goods	₩ 562,459,662	₩	455,096,559
Rendering of services	40,953,107		15,948,952
	<u>₩ 603,412,769</u>	<u>₩</u>	<u>471,045,511</u>

Details of cost of sales for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
Cost of finished products sold			
Inventory beginning	₩ 121,618,413	₩	89,335,171
Changes in consolidation scope	-		1,831,079
Cost of finished products	155,085,778		132,819,307
Transfer from other accounts	1,101,907		13,474,424
Transfer to other accounts	5,954,892		23,990,588
Inventory ending	111,511,576		121,618,413
Gain/loss on valuation of products and others	8,210,044		2,172,890
Loss on production level	21,955,494		15,110,808
	<u>₩ 190,505,168</u>	<u>₩</u>	<u>109,134,678</u>
Cost of merchandise sold			
Inventory beginning	71,183,504		102,077
Changes in consolidation scope	-		75,491,008
Cost of merchandise purchased	4,551,557		2,823,032
Transfer from other accounts	8,918		27,538
Transfer to other accounts	56,942		76,076
Inventory ending	65,694,474		71,183,504
	<u>9,992,563</u>		<u>7,184,075</u>
Cost of service	<u>34,070,984</u>		<u>13,589,107</u>
Total	<u>₩ 234,568,715</u>	<u>₩</u>	<u>129,907,860</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

26. Selling and administrative expenses

Details of selling and administrative expenses for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		2014
Wages, salaries and severance benefits	₩ 20,959,356	₩	18,909,506
Welfare expense	2,696,106		2,990,822
Depreciation	1,181,920		921,716
Amortization	4,723,108		4,338,252
Rents	1,153,893		810,601
Travel	1,593,447		1,600,281
Commission	7,751,164		11,326,286
Service fees	1,127,405		1,243,248
Bad debt expenses	824,698		3,585,868
Entertainment	1,816,078		1,747,305
Advertising	10,719,615		9,000,881
Share-based payment	1,307,483		1,284,291
Research and development expense	37,319,979		69,641,717
Training	207,608		241,491
Sales commissions	8,316,822		6,401,415
Others	8,191,053		5,625,082
	₩ 109,889,735	₩	139,668,762

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

27. Other income and expenses

Details of other income and expenses for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
Other income			
Rental income	₩ 445,183	₩	542,657
Gain on disposal of plant, property and equipment	24,796		11,217
Gain on foreign exchange translation	127,687		436,245
Gain on foreign currency transactions	2,631,539		2,176,280
Dividend income	-		20,291
Gain on valuation of financial assets at fair value	-		636,867
Gain on disposal of financial assets at fair value	-		1,140,564
Gain on disposal of available-for-sale financial assets	89,814		372,872
Gain on insurance settlements	-		2,200,000
Miscellaneous gain	1,213,600		1,008,628
	<u>4,532,619</u>		<u>8,545,621</u>
Other expenses			
Donations	230,909		142,922
Loss on disposal of property, plant and equipment	637		46,296
Loss on disposal of intangible assets	505,921		-
Other bad debt expenses	31,394		51,888
Loss on foreign exchange translation	21,271		17,669
Loss on foreign currency transactions	3,096,701		2,541,254
Loss on valuation of financial assets at fair value	9,729,300		4,956,065
Loss on disposal of financial assets at fair value	54,334,282		589,260
Loss on disposal of available-for-sale financial assets	-		501,481
Impairment loss on available-for-sale financial assets	-		66,331
Loss on disposal of investments in associates	-		4,575,905
Miscellaneous loss	1,457,128		1,781,656
	<u>69,407,543</u>		<u>15,270,727</u>
Net other loss	<u>₩ (64,874,924)</u>	<u>₩</u>	<u>(6,725,106)</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

28. Financial income and expenses

Details of financial income and expenses for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		2014	
Financial income				
Interest income (*1)	₩	7,057,314	₩	10,170,237
Gain on foreign exchange translation		628,162		19,977
Gain on foreign currency transactions		1,855,718		1,068,617
		<u>9,541,194</u>		<u>11,258,831</u>
Financial expenses				
Interest expenses (*2)		29,714,500		38,349,073
Loss on foreign exchange translations		7,562,877		16,926,551
Loss on foreign currency transactions		2,888,172		692,581
Loss on retirement of bonds		553,649		656,807
		<u>40,719,198</u>		<u>56,625,012</u>
Financial income and expenses	₩	<u>(31,178,004)</u>	₩	<u>(45,366,181)</u>

(*1) Details of interest income included in financial income are as follows (Korean won in thousands):

	2015		2014	
Loans to related parties	₩	207,945	₩	-
Other loans and receivables		2,466,338		1,441,912
Financial assets at fair value through profit or loss		-		1,903
Trade receivables		4,383,031		8,726,422
	₩	<u>7,057,314</u>	₩	<u>10,170,237</u>

(*2) Details of interest expenses included in financial expenses are as follows (Korean won in thousands):

	2015		2014	
Interest on bank overdraft and borrowings	₩	41,334,699	₩	48,452,543
Capitalized interest for qualifying assets		(11,620,199)		(10,103,470)
	₩	<u>29,714,500</u>	₩	<u>38,349,073</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

29. Expenses by nature

Details of expenses by nature for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015	2014
Changes in inventories	₩ 8,162,952	₩ (43,725,671)
Employee benefit expense	84,885,069	75,196,202
Cost of raw materials	42,632,422	34,123,483
Purchase of reagent and supplies	2,830,151	5,481,264
Service costs	44,792,186	45,066,285
Bad debt expenses	824,698	3,585,868
Commission expenses	9,423,185	12,443,867
Taxes and dues	2,218,441	2,093,419
Rental expense	2,211,661	1,898,766
Depreciation	31,698,985	30,165,891
Amortization	50,475,098	46,112,920
Other expenses	64,303,602	57,134,329
Total (*1)	₩ 344,458,450	₩ 269,576,623

(*1) The amount is the sum of cost of sales, and selling and administrative expenses on the consolidated statements of profit or loss.

30. Employee benefit expense

Details of employee benefit expense for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015	2014
Wages and salaries	₩ 80,226,878	₩ 65,198,497
Post-employment benefit	5,965,316	5,574,868
Stock options granted to employees	5,008,529	4,478,415
Welfare expenses	12,204,980	11,463,766
Reclassification of development costs	(14,178,246)	(9,120,596)
Reclassification of construction in progress	(4,342,388)	(2,398,748)
	84,885,069	75,196,202

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

31. 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 period excluding ordinary shares purchased by the Group and held as treasury shares.

Basic earnings per share for the years ended December 31, 2015 and 2014 are as follows (Korean won in units, shares):

	<u>2015</u>	<u>2014</u>
Profit attributable to ordinary shares	₩ 154,089,612,464	₩ 112,676,335,295
Weighted average number of ordinary shares outstanding (*1)	109,380,253	106,509,805
Basic earnings per share	1,409	1,058

(*1) It is adjusted reflecting effects of stock dividends during the current period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Group has three categories of dilutive potential ordinary shares: convertible bonds, exchangeable bonds and stock options. The convertible bonds and exchangeable bonds are assumed to have been converted and exchanged into ordinary shares, and the net profit is adjusted to eliminate the interest expense, currency difference and others less the tax effect. For stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Group's shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the stock options.

Diluted earnings per share for the years ended December 31, 2015 and 2014 are as follows (Korean won in units, shares):

	<u>2015</u>	<u>2014</u>
Dilutive profit attributable to ordinary shares (*1)	₩ 154,089,612,464	₩ 112,676,335,295
Weighted average number of ordinary shares in issue (shares)	109,380,253	106,509,805
Adjustment for:		
Stock options	460,978	93,247
Weighted average number of ordinary shares for diluted earnings per share	109,841,231	106,603,052
Diluted earnings per share	1,403	1,057

(*1) As anti-dilutive effects occur in relation to convertible bond, it has been excluded from adjustments.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

32. Supplemental cash flow information

Details of adjustments and change of net working capital in cash generated from operations for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
Profit for the year	₩ 158,281,750	₩ 117,481,628
Adjustments for:		
Income tax expense	4,829,113	31,629,576
Depreciation	31,698,985	30,165,891
Amortization	50,475,098	46,112,921
Bad debt expenses	824,698	3,585,868
Other bad debt expenses	31,394	51,888
Share-based payment	4,175,101	3,780,631
Loss on relation of foreign currency	10,034,016	16,944,220
Allowance for inventories	8,210,044	2,172,890
Interest expenses	29,714,500	38,349,073
Loss on disposal of available-for-sale financial assets	-	501,481
Impairment loss on available-for-sale financial assets	-	66,331
Loss on valuation of financial assets at fair value	9,729,300	4,956,065
Loss on disposal of financial assets at fair value	54,334,282	589,260
Loss on disposal of investments in associates	-	4,575,905
Share of gain (loss) of associates	(209,473)	266,397
Loss on debenture repayment	553,649	656,807
Loss on disposal of property, plant and equipment	637	46,296
Loss on disposal of intangible assets	505,921	-
Gain on relation of foreign currency	(3,869,544)	(456,222)
Dividend income	-	(20,291)
Interest income	(7,057,314)	(10,170,237)
Gain on valuation of financial assets at fair value	-	(636,867)
Gain on disposal of financial assets at fair value	-	(1,140,564)
Gain on disposal of available-for-sale financial assets	(89,814)	(372,872)
Gain on disposal of property, plant and equipment	(24,796)	(11,217)
Total adjustments	<u>₩ 193,865,797</u>	<u>₩ 171,643,230</u>
Change of net working capital		
Trade receivables	₩ (280,238,578)	₩ (72,006,317)
Other receivables	17,398,856	(2,320,561)
Inventories	(20,230,495)	(22,480,415)
Other current assets	9,770,163	3,297,605
Other non-current assets	(996,902)	4,745,554
Trade payables	750,275	(9,991,003)
Other payables	9,312,761	(16,394,007)
Other current liabilities	10,277,032	(557,104)
Provisions	54,381	4,286
Total change of net working capital	<u>(253,902,507)</u>	<u>(115,701,962)</u>
Cash generated from operations	<u>₩ 98,245,040</u>	<u>₩ 173,422,896</u>

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

32. Supplemental cash flows information (cont'd)

The principal non-cash transactions for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
Transfer of construction-in-progress to property, plant and equipment	₩ 85,752,541	₩	103,697,782
Transfer of current maturities of long-term borrowings	84,474,600		142,588,320
Transfer of current maturities of convertible bonds	250,826,083		-
Transfer of current maturities of exchangeable bonds	5,469,779		-
Transfer of current maturities of derivative financial liabilities	91,217,278		-
Exercise of convertible rights of convertible bonds	298,408,207		-
Transfer of equity by stock dividends	5,105,283		2,942,003
Transfer of current maturities of long-term loans	4,147,047		4,094,648

33. Contingencies and commitments

As at December 31, 2015, the Group has the exclusive sales and distribution rights agreement and the product supply agreement with Celltrion Healthcare Co., Ltd., the related party as at December 31, 2015, on the products that the Group is currently developing and will develop in the future. In addition, the Group has obligations for the development and supply of products in accordance with the Master Service Agreement contracted with Celltrion Healthcare Co., Ltd.

The Group sold and supplied ₩502,619 million, representing 83.30% of total sales, (the year ended December 31, 2014: ₩404,116 million) of products and services in accordance with the above agreements for the year ended December 31, 2015. Related receivables from Celltrion Healthcare Co., Ltd. are ₩612,814 million as at December 31, 2015 (December 31, 2014: ₩338,681 million) (See Note 34).

On request of Celltrion Healthcare Co., Ltd., in accordance with the exclusive sales and distribution rights agreement between Celltrion Healthcare Co., Ltd. and the Company, the Company is to store products sold to Celltrion Healthcare Co., Ltd., which represents a significant portion of products sold to Celltrion Healthcare Co., Ltd. at the Company's warehouse having specifically-designed refrigeration units, approved by local safety regulators. These products have been separately partitioned from the Company's inventories.

As at December 31, 2015, the subsidiary, Celltrion Pharm, Inc., has the exclusive sales and distribution rights agreement for domestic market and the product supply agreement with Celltrion Healthcare Co., Ltd. Celltrion Pharm, Inc. and paid advance payments of ₩25,000 million in 2008 for the agreement. The advance payment has been offset by inventory purchase cost, and the remaining balance of ₩14,460 million was collected as cash in 2015.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

33. Contingencies and commitments (cont'd)

The guarantees that the Company provided to its subsidiaries as at December 31, 2015 and December 31, 2014 are as follows (US dollar in thousands):

Purpose	Warrantee	Providing financial institution	Amounts	
			December 31, 2015	December 31, 2014
Guarantee for borrowing of subsidiary	Celltrion Don LLC	Korea EXIM Bank	USD 1,000	USD 4,000
		Woori Bank	USD 3,200	USD 2,900
		Shinhan Bank	USD 7,350	USD 3,400

In addition, the Company has entered into commitments to provide additional collateral to Daewoo Securities Co., Ltd. and Korea Securities Finance Corporation in case of shortage of collateral for borrowings by the Employee Stock Ownership Association and Employee Stock Ownership members from Daewoo Securities Co., Ltd. and Korea Securities Finance Corporation which have employees' stockholding as collateral, and the related joint surety of ₩22,177 million (December 31, 2014: ₩23,631 million) are provided to Daewoo Securities Co., Ltd. and ₩33,249 million (December 31, 2014: ₩25,181 million) are provided to Korea Securities Finance Corporation.

As at December 31, 2015, in relation to the convertible bonds issued in 2015, the investor for the convertible bond may exercise put option to the Group when the agreed conditions are met.

The Group was provided with a ₩3,041 million (December 31, 2014: ₩53 million) guarantee from Seoul Guarantee Insurance Co., Ltd. related to the refund of the support fund for childcare facilities for employees.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

33. Contingencies and commitments (cont'd)

As at December 31, 2015, the Group has entered into loan commitments with financial institutions, and was provided with a guarantee from a financial institution related to the issuance of letter of credit and letter of guarantee from financial institutions. Details of loan commitments by financial institutions as at December 31, 2015 and 2014 are as follows (US dollar in thousands and Korean won in thousands):

Financial institution		December 31, 2015		December 31, 2014			
		Credit line and commitment amount		Credit line and commitment amount			
Import (L/C)	Shinhan Bank	USD	17,000 ₩	-	USD	10,000 ₩	-
	Woori Bank		23,500	-		17,000	-
	Korea Development Bank		22,000	-		10,000	-
	Industrial Bank of Korea		340	-		700	-
Note discount	Industrial Bank of Korea		-	9,000,000		-	9,000,000
	Nonghyup Bank		-	2,000,000		-	-
D/A discount	Industrial Bank of Korea		2,000	-		2,000	-
	Industrial Bank of Korea		177	-		177	-
Collection of foreign currency checks	Industrial Bank of Korea		177	-		177	-
	Shinhan Bank		3,950	125,000,000		-	107,000,000
	Woori Bank		6,600	52,407,500		6,300	55,449,500
	Korea Development Bank		-	90,000,000		-	90,000,000
	Industrial Bank of Korea		-	7,000,000		-	10,000,000
	Suhyup Bank		-	2,000,000		-	2,000,000
	Korea EXIM Bank		1,000	-		4,000	-
	Kookmin Bank		-	10,000,000		-	1,000,000
Corporate general loans	KDB Capital		-	12,000,000		-	-
	IBK Capital		-	12,000,000		-	-
	R&D financing		-	24,999,900		-	41,666,500
	Korea Development Bank		-	24,999,900		-	41,666,500

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

33. Contingencies and commitments (cont'd)

Financial institution		December 31, 2015		December 31, 2014	
		Credit line and commitment amount		Credit line and commitment amount	
Foreign Trade Financing Facility loans	Korea EXIM Bank	USD	- ₩ 65,000,000	USD	- ₩ 65,000,000
	Shinhan Bank		- 24,820,000		- 44,700,000
	Woori Bank		- 51,400,000		- 115,000,000
	KEB Hana Bank		- 11,905,000		- 17,143,000
	Korea Development Bank		- 40,000,000		- -
	Nonghyup Bank		- 15,000,000		- -
Private placement bond	Korea Development Bank		- -		- 10,000,000
	Industrial Bank of Korea		- 3,000,000		- -
Securities pledged loans	Dongbu Securities Co., Ltd.		- -		- 5,000,000
	Golden Bridge Investment Securities Co., Ltd.		- -		- 8,000,000
		USD	76,567 ₩ 557,532,400	USD	50,177 ₩ 580,959,000

As at December 31, 2015, the Group is a defendant in pending lawsuits involving 3 claims for infringement of patent and others. As at the reporting date, the outcome of the pending litigation cannot be reasonably estimated.

As at December 31, 2015, Celltrion Pharm, Inc., a subsidiary of the Company, was imposed additional corporate income tax amounting to ₩10,991 million for the omission of goodwill income in 2009 by Korean tax authorities. Celltrion Pharm, Inc. is going to claim for tax appeal and file an administrative litigation. The Group recognized related assets and liabilities on the interim condensed consolidated financial statements.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

34. Related parties

Details of the Group and its related parties as at December 31, 2015 and 2014 are as follows:

Category	2015	2014
Chief executive officers	Woo Sung Kee, Hyoung Ki Kim	Jung Jin Seo
Entity with significant influence on the Group	Celltrion Holdings Co., Ltd.	Celltrion Holdings Co., Ltd.
Associates	Boston Incubation Investments Association 2014 growth-ladder-IMM venture fund	Boston Incubation Investments Association 2014 growth-ladder-IMM venture fund
Other related parties	Celltrion Healthcare Co., Ltd. Celltrion GSC Co., Ltd. Others	Celltrion Healthcare Co., Ltd. Celltrion GSC Co., Ltd. Others

Significant transactions, which occurred in the normal course of business with related parties for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015					
	Sales	Other income	Interest income	Disposal of intangible assets	Purchase	Others
Entity which exercises significant influence on the Group						
Celltrion Holdings Co., Ltd.	₩ -	₩ 4,939	₩ 160,685	₩ -	₩ -	₩ -
Other related parties						
Celltrion Healthcare Co., Ltd.	502,619,256	1,553,545	5,358,903	122,727	244,832	2,295,450
Celltrion GSC Co., Ltd.	-	8,117	47,260	-	-	-
Others	58,530	434,538	-	-	569,568	200,000
	₩ 502,677,786	₩ 2,001,139	₩ 5,566,848	₩ 122,727	₩ 814,400	₩ 2,495,450
	2014					
	Sales	Other income	Interest income	Purchase	Others	
Other related parties						
Celltrion Healthcare Co., Ltd.	₩ 404,115,865	₩ 460,667	₩ 8,726,422	₩ 39,435	₩ 2,861,597	
Celltrion GSC Co., Ltd.	-	5,008	-	180,279	-	
Others	62,709	300,540	-	233,932	-	
	₩ 404,178,574	₩ 766,215	₩ 8,726,422	₩ 453,646	₩ 2,861,597	

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

34. Related parties (cont'd)

Balances of receivables from and payable to related parties as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

		2015		
Entity which exercises significant influence on the Group		Trade receivables (*1)	Other receivables	Other payables
Celltrion Holdings Co., Ltd.	₩	-	₩ 478	₩ -
Other related parties				
Celltrion Healthcare Co., Ltd.		614,633,874	34,757	8,386
Celltrion GSC Co., Ltd.		-	416	-
Others		-	241,734	102,499
	₩	<u>614,633,874</u>	<u>₩ 277,385</u>	<u>₩ 110,885</u>

		2014		
Other related parties		Trade receivables (*1)	Other receivables	Other payables
Celltrion Healthcare Co., Ltd.	₩	341,528,271	₩ 14,508,399	₩ 7,165
Others		14,786	342,773	18,658
	₩	<u>341,543,057</u>	<u>₩ 14,851,172</u>	<u>₩ 25,823</u>

(*1) Includes allowance for doubtful accounts of ₩1,820 million (December 31, 2014: ₩2,847 million) (See Note 9).

The Group is provided with payment guarantees amounting to ₩ 271,477 million and collateral amounting ₩38,400 million from the entity which exercises significant influence on the Group regarding certain borrowings and the Group is provided with payment guarantees for borrowings ₩520,346 million (December 31, 2014: ₩719,184 million) from the largest shareholder of the entity as at December 31, 2015.

Changes in loans to related parties for the year period ended December 31, 2015 are as follows (Korean won in thousands):

		2015						
		Interest rate	January 1	Loans granted	Redemption	Interest charged	Interest received	December 31
Entity which exercises significant influence on the Group	Celltrion Holdings Co., Ltd.	6.90%	₩ -	₩ 20,000,000	₩ (20,000,000)	₩ 160,685	₩ (160,685)	₩ -
Other related parties	Celltrion GSC Co., Ltd.	6.90%	-	10,000,000	(10,000,000)	47,260	(47,260)	-
			₩ -	₩ 30,000,000	₩ (30,000,000)	₩ 207,945	₩ (207,945)	₩ -

The Group invested in cash amounting to ₩7,590 million to 2014 Growth Ladder-IMM Venture Fund, one of the related parties, and received principal and dividend amounting to ₩2,987 million for the year ended December 31, 2015. In addition, the Group received principal of ₩205 million from Boston Incubation Investments Association, a related party.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

34. Related parties (cont'd)

Key management personnel include directors (standing and non-standing) and audit committee members who have significant control and responsibilities on the Group's operation and business. The compensations paid or payable to key management personnel for employee services for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
Salaries and other short-term employee benefits and other	₩ 9,877,953	₩ 9,526,107
Pension benefits	1,227,832	1,365,500
Total	<u>₩ 11,105,785</u>	<u>₩ 10,891,607</u>

Major commitments and guarantees with related parties are described in Note 33.

35. Non-controlling interest

Details of changes in non-controlling interest for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>Celltrion, Inc. and its subsidiaries</u>
Accumulated amount as at January 1, 2015	₩ 100,386,953
Changes in consolidation scope	-
Profit for the period distributed to non-controlling interest	4,192,138
Other comprehensive income distributed to non-controlling interest	(24,626)
Others (*1)	11,052,637
Accumulated amount as at December 31, 2015	<u>₩ 115,607,102</u>

	<u>Celltrion, Inc. and its subsidiaries</u>
Accumulated amount as at January 1, 2014	₩ -
Changes in consolidation scope	97,223,477
Profit for the period distributed to non-controlling interest	4,805,293
Other comprehensive income distributed to non-controlling interest	6,915
Others (*1)	(1,648,732)
Accumulated amount as at December 31, 2014	<u>₩ 100,386,953</u>

(*1) Others represent the changed amount of owned shares due to exercise of stock warrants granted by Celltrion Pharm, Inc. which is a subsidiary of the Group and also represent the changed amount of net assets according to the recognition of conversion rights, stock warrants and acquisition of treasury stocks.

Celltrion, Inc. and its subsidiaries
Notes to the consolidated financial statements
December 31, 2015 and 2014

36. Events after the reporting period

- (1) After the reporting period, among the Company's convertible bonds amounting to USD 38,500 thousand are converted to 639,214 ordinary shares (conversion price: ₩65,418). The balance of convertible bonds that are not converted are USD 250 thousand and the number of shares convertible is 4,150 shares.
- (2) After the reporting period, among the Company's exchangeable bonds amounting to ₩80,000 million are exchanged for 1,120,118 treasury shares (exchange price: ₩71,421). The balance of exchangeable bonds that are not exchanged are ₩26,000 million and the number of shares exchangeable is 364,038 shares.
- (3) After the reporting period, among Celltrion Pharm, Inc.'s 5th non-registered convertible bonds amounting to ₩5,000 million are converted to 395,569 ordinary shares (conversion price: ₩12,640). The balance of convertible bonds that are not converted are ₩25,000 million and the number of shares convertible is 1,977,848 shares.