

HYUNDAI HEAVY INDUSTRIES CO., LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders
Hyundai Heavy Industries Co., Ltd.:

We have audited the accompanying consolidated financial statements of Hyundai Heavy Industries Co., Ltd. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of December 31, 2015 and 2014 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Other Matter

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

KPMG Samjong Accounting Corp.

Seoul, Korea

March 10, 2016

This report is effective as of March 10, 2016, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2015 and 2014

(In thousands of won)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Assets			
Cash and cash equivalents	4,42,43	₩ 3,105,303,361	3,229,315,488
Short-term financial assets	6, 7, 15, 19, 26, 42, 43	4,627,226,992	4,742,522,625
Trade and other receivables	7, 8, 9, 19, 33, 42, 43, 46	5,340,950,322	5,734,112,198
Due from customers for contract work	8, 33, 42, 43	6,599,947,481	7,154,045,476
Inventories	10, 19, 36	4,492,239,892	5,822,203,196
Derivative assets	26, 42, 43	41,755,610	127,428,741
Firm commitment assets	26	361,396,671	102,390,560
Prepaid income taxes		59,476,191	63,330,607
Other current assets	11, 24	<u>2,547,716,951</u>	<u>2,896,259,774</u>
Total current assets		<u>27,176,013,471</u>	<u>29,871,608,665</u>
Investments in associates and joint ventures	12, 13, 46	270,052,006	554,290,606
Long-term financial assets	6, 7, 15, 19, 26, 42, 43	1,189,482,706	2,496,029,851
Long-term trade and other receivables	7, 8, 9, 33, 42, 43, 46	589,099,760	930,131,965
Investment property	16, 34	347,868,346	393,474,781
Property, plant and equipment	17, 19, 34	16,320,002,213	16,060,222,102
Intangible assets	18, 34	2,140,184,872	2,211,628,038
Derivative assets	26, 42, 43	9,374,626	19,375,757
Firm commitment assets	26	294,765,973	153,874,765
Deferred tax assets	39	1,350,103,038	629,359,589
Other non-current assets	11, 44	<u>45,888,977</u>	<u>64,421,722</u>
Total non-current assets		<u>22,556,822,517</u>	<u>23,512,809,176</u>
Total assets		<u>₩ 49,732,835,988</u>	<u>53,384,417,841</u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Financial Position, Continued
As of December 31, 2015 and 2014

(In thousands of won)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Liabilities			
Short-term financial liabilities	19,20,23,26,42,43,44	₩ 9,502,483,275	12,129,708,393
Trade and other payables	21,42,43,46	5,874,330,417	6,362,168,342
Advances from customers		532,641,433	705,470,656
Due to customers for contract work	33	6,394,046,502	8,140,673,917
Derivative liabilities	26,42,43	571,856,159	204,790,242
Firm commitment liabilities	26	9,147,694	78,981,745
Income tax payable		117,913,382	42,905,141
Short-term provisions	25	4,104,690	-
Other current liabilities	22	54,122,016	37,972,597
Total current liabilities		<u>23,060,645,568</u>	<u>27,702,671,033</u>
Long-term financial liabilities	19,20,23,26,42,43,44	9,205,874,590	7,440,036,077
Long-term trade and other payables	21,42,43,46	98,727,876	104,396,800
Liabilities for defined benefit plans	24	546,242,180	551,233,374
Long-term provisions	25	715,803,496	502,372,244
Derivative liabilities	26,42,43	303,487,526	162,567,299
Firm commitment liabilities	26	9,032,154	13,059,104
Deferred tax liabilities	39	260,665,827	235,878,849
Other non-current liabilities	22	33,395,242	33,627,399
Total non-current liabilities		<u>11,173,228,891</u>	<u>9,043,171,146</u>
Total liabilities		<u>34,233,874,459</u>	<u>36,745,842,179</u>
Equity			
Common stock	27	380,000,000	380,000,000
Capital surplus	27	1,124,895,931	1,109,309,014
Hybrid bonds	28	428,589,000	428,589,000
Capital adjustments	29	(1,341,552,282)	(1,762,535,173)
Accumulated other comprehensive income	26,30	325,410,971	746,492,455
Retained earnings	31	12,818,775,666	14,271,926,021
Equity attributable to owners of the Company		<u>13,736,119,286</u>	<u>15,173,781,317</u>
Non-controlling interests	1,28	<u>1,762,842,243</u>	<u>1,464,794,345</u>
Total equity		<u>15,498,961,529</u>	<u>16,638,575,662</u>
Total liabilities and equity		<u>₩ 49,732,835,988</u>	<u>53,384,417,841</u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2015 and 2014

(In thousands of won, except share information)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Sales	26,33,34,46	₩ 46,231,713,943	52,582,404,205
Cost of sales	10,18,26,36,46	<u>44,681,972,337</u>	<u>53,299,441,785</u>
Gross profit (loss)		1,549,741,606	(717,037,580)
Selling, general and administrative expenses	18,24,35,36	<u>3,089,872,793</u>	<u>2,532,417,385</u>
Operating loss	34	(1,540,131,187)	(3,249,454,965)
Finance income	26,37,42	1,901,598,919	1,611,112,500
Finance costs	26,37,42	2,933,329,474	1,938,268,861
Other non-operating income	26,38	1,197,159,266	970,726,316
Other non-operating expenses	26,38	410,932,602	462,059,802
Share of loss of equity accounted investees	12,13	<u>(55,783,702)</u>	<u>(37,100,275)</u>
Loss before income taxes		(1,841,418,780)	(3,105,045,087)
Income tax benefit	39	<u>(478,195,977)</u>	<u>(898,980,392)</u>
Loss for the year	34	₩ <u>(1,363,222,803)</u>	<u>(2,206,064,695)</u>
Other comprehensive income (loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets		₩ (433,381,779)	(495,770,561)
Effective portion of changes in fair value of cash flow hedges		44,423,068	(26,888,716)
Exchange differences on translating foreign operations		(6,810,172)	(35,333,047)
Change in equity of equity method investments		<u>(49,097,130)</u>	<u>55,724,964</u>
Total items that are or may be reclassified subsequently to profit or loss		<u>(444,866,013)</u>	<u>(502,267,360)</u>
Items that will not be reclassified to profit or loss:			
Actuarial gains and losses		(91,745,010)	(149,579,380)
Changes in retained earnings of equity method investments		<u>(251,364)</u>	<u>8,391,533</u>
Total items that will not be reclassified to profit or loss		<u>(91,996,374)</u>	<u>(141,187,847)</u>
Other comprehensive loss for the year, net of income tax		<u>(536,862,387)</u>	<u>(643,455,207)</u>
Total comprehensive loss for the year	24,26,30,39,42	₩ <u><u>(1,900,085,190)</u></u>	<u><u>(2,849,519,902)</u></u>
Loss attributable to:			
Owners of the Company		(1,349,911,380)	(1,769,214,511)
Non-controlling interests		<u>(13,311,423)</u>	<u>(436,850,184)</u>
		₩ <u><u>(1,363,222,803)</u></u>	<u><u>(2,206,064,695)</u></u>
Total comprehensive loss attributable to:			
Owners of the Company		(1,853,939,306)	(2,396,682,367)
Non-controlling interests		<u>(46,145,884)</u>	<u>(452,837,535)</u>
		₩ <u><u>(1,900,085,190)</u></u>	<u><u>(2,849,519,902)</u></u>
Loss per share	40		
Basic and diluted loss per share (in won)		₩ <u><u>(24,349)</u></u>	<u><u>(32,049)</u></u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the years ended December 31, 2015 and 2014

(In thousands of won)

		Common stock	Capital surplus	Hybrid bonds	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Non-controlling interests	Total equity
Balance at January 1, 2014	₩	380,000,000	1,109,309,014	-	(1,772,782,730)	1,239,973,279	16,293,099,047	1,779,993,147	19,029,591,757
Total comprehensive income (loss) for the year									
Loss for the year		-	-	-	-	-	(1,769,214,511)	(436,850,184)	(2,206,064,695)
Change in fair value of available-for-sale financial assets		-	-	-	-	(484,097,563)	-	(11,672,998)	(495,770,561)
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	(26,989,061)	-	100,345	(26,888,716)
Exchange differences on translating foreign operations		-	-	-	-	(37,677,622)	-	2,344,575	(35,333,047)
Change in equity of equity method investments		-	-	-	-	55,283,422	-	441,542	55,724,964
Actuarial gains and losses		-	-	-	-	-	(142,253,296)	(7,326,084)	(149,579,380)
Change in retained earnings of equity method investments		-	-	-	-	-	8,266,264	125,269	8,391,533
Transactions with owners of the Company, recognized directly in equity									
Dividends		-	-	-	-	-	(117,264,016)	(5,988,909)	(123,252,925)
Issue of hybrid bonds		-	-	428,589,000	-	-	-	-	428,589,000
Interest for hybrid bonds		-	-	-	-	-	(707,467)	-	(707,467)
Changes in ownership in subsidiaries		-	-	-	10,247,557	-	-	143,627,642	153,875,199
Balance at December 31, 2014	₩	<u>380,000,000</u>	<u>1,109,309,014</u>	<u>428,589,000</u>	<u>(1,762,535,173)</u>	<u>746,492,455</u>	<u>14,271,926,021</u>	<u>1,464,794,345</u>	<u>16,638,575,662</u>
Balance at January 1, 2015	₩	380,000,000	1,109,309,014	428,589,000	(1,762,535,173)	746,492,455	14,271,926,021	1,464,794,345	16,638,575,662
Total comprehensive income (loss) for the year									
Loss for the year		-	-	-	-	-	(1,349,911,380)	(13,311,423)	(1,363,222,803)
Change in fair value of available-for-sale financial assets		-	-	-	-	(407,381,598)	-	(26,000,181)	(433,381,779)
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	43,763,462	-	659,606	44,423,068
Exchange differences on translating foreign operations		-	-	-	-	(8,706,720)	-	1,896,548	(6,810,172)
Change in equity of equity method investments		-	-	-	-	(48,756,628)	-	(340,502)	(49,097,130)
Actuarial gains and losses		-	-	-	-	-	(82,697,349)	(9,047,661)	(91,745,010)
Change in retained earnings of equity method investments		-	-	-	-	-	(249,093)	(2,271)	(251,364)
Transactions with owners of the Company, recognized directly in equity									
Dividends		-	-	-	-	-	-	(2,446,286)	(2,446,286)
Disposal of treasury shares		-	13,411,197	-	433,522,214	-	-	-	446,933,411
Interest for hybrid bonds		-	-	-	-	-	(20,292,533)	-	(20,292,533)
Issue of hybrid bonds in subsidiary		-	-	-	-	-	-	224,272,850	224,272,850
Changes in ownership in subsidiaries		-	2,175,720	-	(12,539,323)	-	-	122,367,218	112,003,615
Balance at December 31, 2015	₩	<u>380,000,000</u>	<u>1,124,895,931</u>	<u>428,589,000</u>	<u>(1,341,552,282)</u>	<u>325,410,971</u>	<u>12,818,775,666</u>	<u>1,762,842,243</u>	<u>15,498,961,529</u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014

(In thousands of won)

	Note	2015	2014
Cash flows from operating activities			
Loss for the year		₩ (1,363,222,803)	(2,206,064,695)
Adjustments		820,049,430	3,846,015,292
Cash generated from operations	41	(543,173,373)	1,639,950,597
Interest received		255,811,333	305,835,273
Interest paid		(407,661,689)	(410,302,676)
Dividends received		86,977,614	92,296,690
Income taxes received (paid)		33,695,055	(121,105,136)
Net cash provided by (used in) operating activities		<u>(574,351,060)</u>	<u>1,506,674,748</u>
Cash flows from investing activities			
Proceeds from sale of short-term financial assets		308,122,035	281,966,263
Proceeds from collection of other receivables		4,967,260	9,489,599
Proceeds from sale of investments in associates and joint venture		143,548,055	7,934,700
Proceeds from sale of investments in subsidiaries, net of cash transferred		29,517,071	105,916,775
Proceeds from sale of long-term financial assets		1,599,798,825	1,259,339,673
Proceeds from collection of long-term other receivables		101,923,582	70,034,423
Proceeds from sale of investment property		-	15,236,500
Proceeds from sale of property, plant and equipment		45,737,187	127,075,010
Proceeds from sale of intangible assets		24,683,479	5,843,993
Proceeds from government grants		736,168	5,782,891
Proceeds from collection of other non-current assets		7,059,480	669,690
Acquisition of short-term financial assets		(362,221,184)	(289,406,901)
Acquisition of other receivables		(63,469)	(25,089)
Acquisition of investments in associates and joint venture		(45,856,960)	(20,133,500)
Acquisition of long-term financial assets		(634,495,468)	(561,192,828)
Acquisition of long-term other receivables		(36,447,519)	(58,065,178)
Acquisition of investment property		(232,536)	(402)
Acquisition of property, plant and equipment		(1,280,691,731)	(1,487,037,877)
Acquisition of intangible assets		(52,947,165)	(64,899,898)
Acquisition of other non-current assets		-	(6,018)
Net cash used in investing activities		<u>(146,862,890)</u>	<u>(591,478,174)</u>
Cash flows from financing activities			
Proceeds from short-term financial liabilities		20,651,615,738	24,492,641,246
Proceeds from long-term financial liabilities		4,520,814,336	4,062,670,622
Issue of hybrid bonds		-	428,589,000
Disposal of treasury shares		127,520,897	-
Issue of hybrid bonds in subsidiary		224,272,850	-
Capital contribution from non-controlling interests		146,388,389	106,683,433
Repayment of short-term financial liabilities		(24,491,368,105)	(27,583,833,012)
Repayment of long-term financial liabilities		(556,399,241)	(399,299,658)
Interest of hybrid bonds paid		(21,000,000)	-
Dividends paid		-	(117,264,016)
Dividends and distribution to non-controlling interests		(8,186,536)	(3,949,556)
Net cash provided by financing activities		<u>593,658,328</u>	<u>986,238,059</u>
Effects of exchange rate changes on cash and cash equivalents		3,543,495	(8,732,354)
Net increase (decrease) in cash and cash equivalents		<u>(124,012,127)</u>	<u>1,892,702,279</u>
Cash and cash equivalents at January 1		<u>3,229,315,488</u>	<u>1,336,613,209</u>
Cash and cash equivalents at December 31		<u>₩ 3,105,303,361</u>	<u>3,229,315,488</u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

1. Reporting Entity

(1) Description of the controlling company

Hyundai Heavy Industries Co., Ltd. (the "Company") was incorporated in 1973, under the Commercial Code of the Republic of Korea, and is engaged in the manufacture and sale of ships, offshore structures, plants, engines and other products. The consolidated financial statements comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and joint ventures.

In August 1999, the Company was listed on the Korea Exchange. As of December 31, 2015, the Company's major stockholders consist of Mong-Joon Chung (10.15%) and Hyundai Mipo Dockyard Co., Ltd. (7.98%).

(2) Consolidated subsidiaries

Subsidiaries as of December 31, 2015 and 2014 are summarized as follows:

Company	Main business	Location	Fiscal year end	Ownership (%)	
				2015	2014
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding	Korea	December	94.92	94.92
Hyundai Mipo Dockyard Co., Ltd.(*1,2)	Shipbuilding	Korea	December	43.51	43.51
Hyundai Oilbank Co., Ltd.	Manufacturing of petroleum products	Korea	December	91.13	91.13
Hyundai Heavy Material Service	Sale and manufacture of machinery equipment for shipbuilding	Korea	December	100.00	100.00
KOMAS Corporation	Shipping	Korea	December	100.00	100.00
Hyundai Energy & Resources Co., Ltd.(*1)	Services for crude oil and natural gas mining	Korea	December	-	90.00
Hyundai Engineering & Technology Co., Ltd.(*1)	Other engineering services	Korea	December	100.00	100.00
Ulsan Hyundai Football Club Co., Ltd.	Football club	Korea	December	100.00	100.00
Hotel Hyundai Co., Ltd.	Hotel operation	Korea	December	100.00	100.00
HI Investment & Securities Co., Ltd.(*1)	Securities brokerage	Korea	December	85.32	83.24
HI Asset Management Co., Ltd.(*1)	Asset management	Korea	December	99.99	99.99
Hyundai Finance Corporation	Granting of credit	Korea	December	72.13	67.49
Hyundai Venture Investment Corporation(*1)	Granting of credit	Korea	December	70.05	68.38
Hyundai Futures Corporation(*1)	Entrust and brokerage of futures transactions	Korea	December	65.22	65.22
Hyundai Ship Private Fund 1(*1)	Other financial business	Korea	December	100.00	100.00
HI Himsen Private Funds Investment Trust 1 (*1,3)	Other financial business	Korea	December	-	21.33
Hi Himsen Multi Strategy Private Funds Investment Trust 1 (*1,3)	Other financial business	Korea	December	30.25	-
Hyundai Oil Terminal Co., Ltd.(*1)	Oil storage business	Korea	December	70.00	70.00
Hyundai and Shell Base Oil Co., Ltd.(*1)	Manufacturing of base oil	Korea	December	60.00	60.00
Hyundai Chemical Co., Ltd.(*1)	Crude Oil refining business	Korea	December	60.00	60.00
Hyundai (Jiangsu) Construction Machinery Co., Ltd.(*1)	Sale and manufacture of machinery equipment for construction	China	December	60.00	60.00

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

1. Reporting Entity, Continued

(2) Consolidated subsidiaries, continued

Company	Main business	Location	Fiscal year end	Ownership (%)	
				2015	2014
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.(*1)	Sale and manufacture of machinery equipment for construction	China	December	60.00	60.00
HHI China Investment Co., Ltd.	Holding company	China	December	100.00	100.00
Hyundai Financial Leasing Co., Ltd.(*1)	Finance and operating leases	China	December	88.02	88.02
Hyundai Heavy Industries (China) Electric Co., Ltd.(*1)	Sale and manufacture of switchboards for electric distribution	China	December	100.00	100.00
Yantai Hyundai Moon Heavy Industries Co., Ltd.(*1)	Sale and manufacture of industrial boilers	China	December	55.00	55.00
Changzhou Hyundai Hydraulic Machinery Co., Ltd.(*1)	Sale and manufacture of hydraulic cylinders for construction equipment	China	December	100.00	100.00
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	Sale and manufacture of wheel loaders	China	December	100.00	100.00
Weihai Hyundai Wind Power Technology Co., Ltd.(*1)	Sale and manufacture of facilities for wind power generation	China	December	80.00	80.00
Hyundai Heavy Industries (Shanghai) R&D Co., Ltd.(*1)	Research and development of technology for construction machinery, engine and electric equipment	China	December	100.00	100.00
Hyundai Oilbank (Shanghai) Co., Ltd.(*1)	Trading in petrochemical products	China	December	100.00	100.00
HDO Singapore Pte. Ltd.(*1)	Trading in crude oil and petrochemical products, chartering	Singapore	December	100.00	100.00
Hyundai-Vinashin Shipyard Co., Ltd.(*1)	Shipbuilding	Vietnam	December	65.00	65.00
Hyundai Construction Equipment India Pvt., Ltd.	Sale and manufacture of machinery equipment for construction	India	March	100.00	100.00
Hyundai Transformers and Engineering India Pvt., Ltd.	Sale and manufacture of transformers	India	March	100.00	100.00
Hyundai Construction Equipment Americas, Inc.	Sale of machinery equipment for construction	America	December	100.00	100.00
Hyundai Power Transformers USA, Inc.	Sale and manufacture of industrial electric equipment	America	December	100.00	100.00
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment	America	December	100.00	100.00
PHECO Inc.	Design services for offshore facilities	America	December	100.00	100.00
HHI Battery CO., Ltd.	Manufacturing	Canada	December	100.00	100.00

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

1. Reporting Entity, Continued

(2) Consolidated subsidiaries, continued

Company	Main business	Location	Fiscal year end	Ownership (%)	
				2015	2014
Hyundai Heavy Industries Brasil - Real Estate Developments(*4)	Real estate development	Brazil	December	-	97.09
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	Manufacture, trade and repair of heavy equipment	Brazil	December	98.37	97.09
Hyundai Heavy Industries Miraflores Power Plant Inc.	Manufacturing	Panama	December	100.00	100.00
Vladivostok Business Center	Hotel operation	Russia	December	100.00	100.00
Hyundai Khorol Agro Ltd.	Agriculture	Russia	December	100.00	95.24
Hyundai Mikhailovka Agro Ltd.	Agriculture	Russia	December	100.00	100.00
Hyundai Electrosystems Co., Ltd.	Manufacture of high-voltage circuit breakers	Russia	December	100.00	100.00
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction	Belgium	December	100.00	100.00
Hyundai Heavy Industries Co. Bulgaria	Sale and manufacture of transformers	Bulgaria	December	99.09	99.09
Hyundai Technologies Center Hungary Kft.	Research and development of technology	Hungary	December	100.00	100.00
Hyundai Heavy Industries France SAS	Manufacturing	France	December	100.00	100.00
Jahnel-Kestermann Getriebewerke GmbH	Designing and manufacture of gearboxes	Germany	December	100.00	100.00
JaKe Service GmbH(*1)	Gearbox repair	Germany	December	100.00	100.00
HHI MAURITIUS LIMITED	Manufacturing	Mauritius	December	100.00	100.00
MS Dandy Ltd.(*1)	Ship rental service	Marshall Islands	December	100.00	100.00
Hyundai West Africa Limited	Manufacture of other transport equipment	Nigeria	December	100.00	100.00
Hyundai Arabia Company LLC.	Industrial plant construction	Saudi Arabia	December	70.00	70.00
Grande Ltd.(*1)	Ship rental service	Marshall island	December	100.00	100.00
Hyundai Hi-Power Service Europe B.V	Engine warranty repairs	Netherland	December	100.00	-

(*1) The percentage of ownership includes indirect ownership.

(*2) Even though the Group does not have a majority ownership of Hyundai Mipo Dockyard Co., Ltd., the Group is considered to have control of Hyundai Mipo Dockyard Co., Ltd., considering that the rest of stockholders are minority stockholders and widely dispersed, and the Group exerted majority voting rights in the past stockholders' meetings.

(*3) The fund is a structured entity operated by HI Asset Management Co., Ltd, a subsidiary, and the Group was considered to have control of the fund considering the proportion of ownership interests held by the Group and the terms of contractual arrangements as of December 31, 2014. For the year ended December 31, 2015, the Group disposed entire equity of HI Himsen Private Funds Investment Trust 1.

(*4) The company has been merged with Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment, one of the consolidated subsidiaries, for the year ended December 31, 2015.

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1. Reporting Entity, Continued

(3) Changes in scope of consolidation

(i) Subsidiaries newly subject to consolidation in 2015 are as follows:

Company	Reason
HI Himsen Multi Strategy Private Funds Investment Trust 1	Commencing control resulting from the new acquisition
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	Additional acquisition
Hyundai Hi-Power Service Europe B.V	Commencing control resulting from the new acquisition

(ii) Subsidiaries no longer subjected to consolidation in 2015 are as follows:

Company	Reason
Hyundai Energy & Resources Co., Ltd	Disposal
HI Himsen Private Funds Investment Trust 1	Disposal
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	Ownership decline
Hyundai Heavy Industries Brasil - Real Estate Developments	Merger

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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1. Reporting Entity, Continued

(4) Condensed financial information of consolidated subsidiaries

- (i) Condensed financial information of significant consolidated subsidiaries as of and for the year ended December 31, 2015 is summarized as follows:

(In millions of won)

Company	Assets	Liabilities	Equity	Sales	Profit (loss)	Total comprehensive income (loss)
Hyundai Samho Heavy Industries Co., Ltd.	₩ 7,169,347	4,506,697	2,662,650	4,504,022	(276,018)	(413,611)
Hyundai Mipo Dockyard Co., Ltd.	4,621,284	2,932,058	1,689,226	3,701,784	25,923	(136,263)
Hyundai Oilbank Co., Ltd.	7,079,857	3,369,062	3,710,795	12,106,787	433,738	419,040
Hyundai Heavy Material Service	231,072	25,727	205,345	285,411	11,629	11,267
Hotel Hyundai Co., Ltd.	276,984	19,052	257,932	63,515	4,559	3,391
KOMAS Corporation	101,545	2,095	99,450	440	11,111	11,111
HI Investment & Securities Co., Ltd.	5,280,416	4,581,746	698,670	914,769	26,392	17,829
Hyundai Finance Corporation	134,124	1,068	133,056	13,239	(11,710)	(12,031)
Hyundai Futures Corporation	137,866	93,486	44,380	44,751	56	230
Hyundai Oil Terminal Co., Ltd.	109,551	24,281	85,270	28,026	5,547	5,400
Hyundai and Shell Base Oil Co., Ltd.	392,589	209,002	183,587	568,792	31,153	31,093
Hyundai Chemical Co., Ltd.	569,206	93,725	475,481	-	(1,532)	(2,485)
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	242,664	161,499	81,165	114,426	(111,516)	(109,099)
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	136,529	86,894	49,635	78,854	(37,085)	(36,068)
HHI China Investment Co., Ltd.	502,054	113,142	388,912	19,214	11,466	14,934
Hyundai Financial Leasing Co., Ltd.	445,205	179,489	265,716	35,859	8,743	11,160
Hyundai Heavy Industries (China) Electric Co., Ltd.	164,764	114,372	50,392	161,692	2,452	2,887
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	75,370	21,808	53,562	9,653	(41,547)	(41,216)
HDO Singapore Pte. Ltd.	161,621	138,311	23,310	3,672,249	2,268	3,503
Hyundai-Vinashin Shipyard Co., Ltd.	430,549	423,767	6,782	452,489	2,846	3,183
Hyundai Construction Equipment India PVT, Ltd.	142,572	117,213	25,359	170,862	533	941
Hyundai Construction Equipment Americas, Inc.	218,807	167,602	51,205	264,881	713	3,873
Hyundai Power Transformers USA, Inc.	156,069	148,203	7,866	93,459	(25,585)	(24,366)
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	195,941	121,787	74,154	88,776	(45,924)	(65,022)
Hyundai Heavy Industries Europe N.V.	178,743	116,796	61,947	321,070	5,038	2,656

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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1. Reporting Entity, Continued

(4) Condensed financial information of consolidated subsidiaries, continued

(ii) Condensed financial information of significant consolidated subsidiaries as of and for the year ended December 31, 2014 is summarized as follows:

(In millions of won)

Company	Assets	Liabilities	Equity	Sales	Profit (loss)	Total comprehensive income (loss)
Hyundai Samho Heavy Industries Co., Ltd.	₩ 7,268,651	4,192,390	3,076,261	4,172,054	(218,973)	(465,949)
Hyundai Mipo Dockyard Co., Ltd.	4,987,681	3,176,027	1,811,654	3,365,277	(695,284)	(1,356,000)
Hyundai Oilbank Co., Ltd.	7,701,154	4,633,073	3,068,081	18,257,993	31,142	14,615
Hyundai Heavy Material Service KOMAS Corporation	225,907	31,829	194,078	243,806	5,114	5,007
KOMAS Corporation	137,041	2,051	134,990	440	11,436	11,436
HI Investment & Securities Co., Ltd.	5,490,222	4,908,983	581,239	617,161	18,654	22,260
Hyundai Finance Corporation	216,812	69,895	146,917	13,733	(1,451)	(556)
Hyundai Venture Investment Corporation	73,117	999	72,118	8,462	844	1,087
Hyundai Futures Corporation	154,018	109,868	44,150	26,743	(678)	(918)
Hyundai Oil Terminal Co., Ltd.	112,754	32,884	79,870	22,667	5,608	5,529
Hyundai and Shell Base Oil Co., Ltd.	429,772	277,278	152,494	345,045	20,958	20,945
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	373,765	183,501	190,264	253,746	(60,161)	(58,346)
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	179,130	93,427	85,703	147,731	(24,604)	(23,874)
HHI China Investment Co., Ltd.	430,182	56,204	373,978	16,509	10,654	16,604
Hyundai Financial Leasing Co., Ltd.	540,611	274,566	266,045	47,388	734	4,777
Hyundai Heavy Industries (China) Electric Co., Ltd.	181,022	133,517	47,505	148,446	(3,534)	(2,868)
Yantai Hyundai Moon Heavy Industries Co., Ltd.	73,676	38,992	34,684	87,940	(5,128)	(4,690)
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	100,622	90,833	9,789	38,211	(13,488)	(13,587)
Hyundai Oilbank (Shanghai) Co., Ltd.	42,408	38,431	3,977	353,616	675	749
HDO Singapore Pte. Ltd.	350,631	333,391	17,240	6,961,229	2,744	3,434
Hyundai-Vinashin Shipyard Co., Ltd.	492,438	488,839	3,599	404,516	(114,848)	(114,931)
Hyundai Construction Equipment India PVT., Ltd.	142,570	118,152	24,418	146,811	8,302	8,582
Hyundai Construction Equipment Americas, Inc.	240,512	193,180	47,332	287,897	6,487	8,390
Hyundai Power Transformers USA, Inc.	150,335	118,103	32,232	84,679	(19,961)	(17,575)
Hyundai Ideal Electric Co.	70,400	42,438	27,962	72,566	542	1,661
Hyundai Heavy Industries Brasil - Real Estate Developments	57,329	36,257	21,072	8,552	(57)	(1,745)
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	270,463	242,368	28,095	184,606	(73,658)	(79,535)
Hyundai Electrosystems Co., Ltd.	33,131	113	33,018	-	(3,042)	(22,548)
Hyundai Heavy Industries Europe N.V.	151,902	92,611	59,291	327,540	6,499	1,454

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

1. Reporting Entity, Continued

(5) Non-controlling interests

The information about non-controlling interests of significant consolidated subsidiaries of and for the years ended December 31, 2015 and 2014 is summarized as follows:

(In millions of won)

	Hyundai Mipo Dockyard Co., Ltd.(*1)		Hyundai Oilbank Co., Ltd.(*2)	
	2015	2014	2015	2014
Ownership for non-controlling interests	56.49%	56.49%	8.87%	8.87%
Net assets	1,689,226	1,811,654	3,710,795	3,068,081
Book value of non-controlling interests	989,549	1,053,316	533,528	272,139
Net income (loss)	25,923	(695,284)	433,738	31,142
The profit (loss) attributable non-controlling interests	15,186	(404,246)	38,473	2,762
Cash flows from operating activities	(289,047)	(249,422)	1,429,984	381,249
Cash flows from investing activities	(109,139)	207,923	(500,609)	(239,216)
Cash flows from financing activities	340,653	511,556	(1,158,854)	221,111
Net increase (decrease) of cash and cash equivalents	(57,533)	470,057	(229,479)	363,144
Dividends paid to non-controlling interests	-	8,438	-	-

(*1) Ownership for non-controlling interests considering the treasury shares of Hyundai Mipo Dockyard Co., Ltd are 56.36% and 55.90% as of December 31, 2015 and 2014, respectively, and effective ownership for non-controlling interests considering stake of intermediate parent company are 58.58% and 58.14% as of December 31, 2015 and 2014, respectively.

(*2) Non-controlling interest in Hyundai Oilbank Co., Ltd. includes hybrid bonds amounted to ₩ 224,273 million issued by Hyundai Oilbank Co., Ltd. as of December 31, 2015.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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2. Basis of Preparation

(1) Statement of compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 4, 2016 and will be submitted for approval to the stockholders' meeting to be held on March 25, 2016.

(2) Basis of measurement

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

- Derivative financial instruments are measured at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Available-for-sale financial assets are measured at fair value
- Liabilities for cash-settled share-based payment arrangements are measured at fair value
- Liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets and unrecognized past service costs

(3) Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Group operates.

(4) Use of estimates and judgments

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

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

(i) Judgments

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

- Note 1 – Scope of Consolidation: Whether the Group has de facto control over an investee;
- Note 9 – Classification of leases;
- Note 13, 14 – Classification of joint arrangement; and
- Note 16 – Classification of investment property

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

2. Basis of Preparation, Continued

(4) Use of estimates and judgments, continued

(ii) Assumptions and estimation uncertainties

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

- Note 11, 15, 17 and 18 – Impairment test: key assumptions underlying recoverable amounts, including the recoverability of property, plant and equipment, intangible assets, available-for-sale financial assets, and other assets;
- Note 24 – Measurement of defined benefit obligations: key actual assumptions;
- Notes 25, 44 and 45 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 33 – Revenue recognition in proportion to stage of completion, the estimates of total contract costs; and
- Note 39 – Measurement of deferred tax

(iii) Measurement of fair value

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

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

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

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

- Note 15 – Available-for-sale financial assets;
- Note 26 – Derivative financial instruments; and
- Note 43 – Financial instruments

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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3. Changes in Accounting Policies

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these consolidated financial statements.

The Group has adopted the following amendments to standards with a date of initial application of January 1, 2015.

- Employee contributions (Amendments to K-IFRS 1019 'Employee benefits')

The nature and effects of the changes are explained below.

The Group has adopted amendments to K-IFRS 1019, 'Employee benefits', since January 1, 2015. For contributions from employees or third parties which meet the conditions set out in the formal terms of the plan, an entity may choose to reduce service cost in the period in which the related service is rendered.

Contributions which are linked to service should be included in calculations of net current service cost and defined benefit liabilities, and those contributions shall be attributed to periods of services either using the plan's contribution formula or on a straight-line basis.

In accordance with the transitional requirements of K-IFRS 1019, the Group applied the amendments retrospectively. The change in accounting policy had no impact on the consolidated financial statements.

4. Significant Accounting Policies

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

(1) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segment operating results are reviewed regularly by the Group's chief executive officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. As discussed in Note 34 the Group has nine reportable segments which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(2) Basis of consolidation

(i) Business combinations

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or business under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The costs to issue debt or equity securities are recognized in accordance with K-IFRS No. 1032, 'Financial Instruments: Presentation' and K-IFRS No. 1039, 'Financial Instruments: Recognition and Measurement'.

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4. Significant Accounting Policies, Continued

(2) Basis of consolidation, continued

- (i) Business combinations, continued
The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

- (ii) Non-controlling interests
NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

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

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

- (v) Interests in equity-accounted investees
The Group's interests in equity-accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

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

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

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4. Significant Accounting Policies, Continued

(2) Basis of consolidation, continued

(vii) Acquisitions from entities under common control

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

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares when it has a short maturity with a specified redemption date.

Cash and cash equivalents as of December 31, 2015 and 2014 are as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Cash	₩ 1,351	27,700
Current deposit	129,349	44,956
Ordinary deposit	1,151,020	247,681
MMF	-	301,938
MMDA	520,911	1,152,454
Others	1,302,672	1,454,586
	<u>₩ 3,105,303</u>	<u>3,229,315</u>

(4) Inventories

The cost of inventories is based on the moving-average method with the exception of cost of materials-in-transit, which is determined on the specific identification method. Cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

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4. Significant Accounting Policies, Continued

(5) Non-derivative financial assets

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

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

- (i) **Financial assets at fair value through profit or loss**
Financial assets are classified at fair value through profit or loss if they are held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.
- (ii) **Held-to-maturity investments**
Non-derivative financial assets with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.
- (iii) **Loans and receivables**
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method except for loans and receivables of which the effect of discounting is immaterial.
- (iv) **Available-for-sale financial assets**
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, which changes in fair value, net of any tax effect, are recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.
- (v) **De-recognition of financial assets**
The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.
- (vi) **Offsetting between financial assets and financial liabilities**
Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

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4. Significant Accounting Policies, Continued

(6) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

(ii) Separable embedded derivatives

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

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

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

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4. Significant Accounting Policies, Continued

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

(iii) Other derivative financial instruments

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

(7) Impairment of financial assets

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

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security; or
- Observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets

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

(i) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(ii) Financial assets carried at cost

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

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4. Significant Accounting Policies, Continued

(7) Impairment of financial assets, continued

(iii) Available-for-sale financial assets

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

(8) Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

The estimated useful lives of the Group's property, plant and equipment are as follows:

	Useful lives (years)
Buildings	15~50
Structures	15~50
Machinery	2~40
Heavy machinery	12~15
Ships	15, 25
Vehicles	4~10
Tools, furniture and fixtures	3~20
Other property, plant and equipment ("Others")	3~5

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

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4. Significant Accounting Policies, Continued

(9) Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

	Useful lives (years)
Capitalized development costs	5
Distribution networks	20
Customer relationships	9
Brands	Indefinite
Industrial property right	4~10
Know-how	16
Other intangible assets	3~50
Membership	Indefinite

Useful lives and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

(i) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

(ii) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(10) Government grants

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

Government grants whose primary condition is that the Group purchase, construct or otherwise acquire long-term assets are deferred and recognized as deduction to depreciation expense over the useful life of the asset.

Government grants which are intended to compensate the Group for expenses incurred are recognized as other income (government grants) in profit or loss over the periods in which the Group recognizes the related costs as expenses.

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4. Significant Accounting Policies, Continued

(11) Investment property

Property held for the purpose of earning rentals or benefiting from capital appreciation is classified as investment property. Investment property is initially measured at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

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

Investment property is depreciated using the straight-line method over the following estimated useful lives:

	Useful lives (years)
Buildings	20~50
Structures	20~40

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

(12) Impairment of non-financial assets

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

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

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

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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4. Significant Accounting Policies, Continued

(13) Leases

The Group classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(i) Finance leases

The Group recognizes assets held under a finance lease and presents them as a receivable at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

(ii) Operating leases

Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. The depreciation policy for depreciable leased assets is consistent with the Group's normal depreciation policy for similar assets.

(14) Due from customers for contract work and due to customers for contract work

Due from customers for contract work represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

The gross amount due from customers for contract work is presented as an asset in the statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the gross amount due to customers for contract work is presented as a liability in the statement of financial position.

(15) Borrowing costs

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

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period. In addition, the Group capitalized borrowing costs amounting to ₩168,047 million and ₩142,155 million, applying capitalization rate of 2.48%~3.75% and 2.64%~4.51% for the years ended December 31, 2015 and 2014, respectively.

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4. Significant Accounting Policies, Continued

(16) Non-derivative financial liabilities

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

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

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

(ii) Other financial liabilities

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

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

(17) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service. The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans

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

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4. Significant Accounting Policies, Continued

(17) Employee benefits, continued

(iv) Retirement benefits: defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current period, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

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

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

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(18) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

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

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

(i) Provision for construction warranty

The Group generally provides a warranty within the contract on rectification of defects after the contract's completion and accrues the rectification expense on defects based on actual claims history as provision for construction warranty.

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4. Significant Accounting Policies, Continued

(18) Provisions, continued

(ii) Provision for product warranty

The Group generally provides a warranty relating to product defects for a specified period of time after sales and accrues estimated costs as provision for product warranty, which may occur due to product liability suits.

(iii) Other provision

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration is recognized.

A provision is used only for expenditures for which the provision was originally recognized.

(19) Emissions rights

The Group accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission which became effective in 2015.

(i) Greenhouse Gases Emission Right

Greenhouse Gases Emission Right consists of emission allowances which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation are classified as an intangible asset and are initially measured at cost and after initial recognition, are carried at cost less accumulated impairment losses. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized through profit or loss in the respective reporting period.

The Group derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

(ii) Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when there is a high possibility of outflows of resources in performing the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at of the end of the reporting period.

The Group is involved in the allocation of emission and the trading scheme from 2015. From 2015 to 2017 is the one planning period, the quantities of emission rights which are allocated free of charge during the planning period are as follows:

<i>(In ton)</i>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Allocated emission right free of charge Ton	3,615,811	3,530,017	3,459,611	10,605,439

As of December 31, 2015, there is no emission rights provided as collateral and the Group recognized an emission liabilities amounting to ₩4,105 million since the estimated quantity of emission 4,037,654 ton exceeds allocated emission right free of charge (note 25).

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4. Significant Accounting Policies, Continued

(20) Foreign currency

(i) Foreign currency transactions

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to the presentation currency using the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency using the exchange rates at the dates of the transaction. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

(iii) Translation of the net investment in foreign operations.

A monetary item that is receivable from or payable to a foreign operation, for which settlement is neither planned nor likely to occur in the foreseeable future, is a part of the entity's net investment in that foreign operation. Exchange differences arising on such monetary item are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment

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4. Significant Accounting Policies, Continued

(21) Equity capital

(i) Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(ii) Hybrid bonds

The Group classified capital securities in accordance with the substance of the contractual terms of capital securities as financial liabilities or equity instruments. Hybrid bonds that have an unconditional right to avoid delivering cash or financial assets to pay a contractual obligation are classified as equity instrument and are presented in equity.

(22) Share-based payment transactions

The Group has granted shares or share options to its employees and other parties. For equity-settled share-based payment transactions, the Group measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Group cannot reliably estimate the fair value of the goods or services received, the Group measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Group measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period.

(23) Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, which are recognized as a reduction of revenue.

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

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4. Significant Accounting Policies, Continued

(23) Revenue, continued

(ii) Customer loyalty programs

For customer loyalty programs, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits ("P-points") and the other components of the sale. The amount allocated to the P-points is estimated by reference to the fair value of the products for which they could be redeemed, since the fair value of the P-points themselves is not directly observable. The fair value of the products is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognized only when the P-points are redeemed and the Group has fulfilled its obligations to supply the products. The amount of revenue recognized in those circumstances is based on the number of P-points that have been redeemed in exchange for products, relative to the total number of P-points that are expected to be redeemed.

(iii) Services

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iv) Construction contracts

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognized as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in profit or loss.

(v) Commissions

In an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the net amount of commission made by the Group.

(vi) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

(24) Incidental loan income and expenses

The Group recognizes loan commissions as deferred incidental loan income, and incremental costs arising from the acquisition or disposal of loans are treated as deferred incidental loan expenses, which is adjusted in interest revenues on loans after being amortized using the effective interest method.

(25) Accounting for disposal of loans

The Group records the difference between carrying value and the selling price as reasonably derived and measured by independent trusted third party in profit or loss.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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4. Significant Accounting Policies, Continued

(26) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(27) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognized, using the asset-liability method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax liability is recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which they can be utilized. However, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries and associates, 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.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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4. Significant Accounting Policies, Continued

(27) Income taxes, continued

(ii) Deferred tax, continued

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

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

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

(28) Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary stockholders of the Group by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

(29) New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2015, and the Group has not early adopted them. Management is in the progress of evaluating the impact of the amendments on the Group's consolidated financial statements.

(i) K-IFRS 1109 'Financial Instruments'

In K-IFRS 1109 'Financial Instruments', the amendment was based on classification and measurement of financial instruments, and the incurred loss model has been replaced with the expected credit loss model in the credit loss model. K-IFRS 1109 'Financial Instruments' also has been revised that the more hedging strategy used for actual risk management is able to be applicable to hedge accounting such as expanding the range of hedged items, hedging instrument, hedged risk to match hedge accounting to firm's actual purpose of risk management. This amendment is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

(ii) K-IFRS 1115 'Revenue From Contracts with Customers'

K-IFRS 1115 'Revenue From Contracts with Customers', the only standard applied to all contracts with customers, adverts 5-step analysis to recognize revenue, and replace the model based on the risk and compensation to the model based on control. The existing model, which based on the risk and compensation, has been changed to an indicator presenting implementation time of duties to be performed. This new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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5. Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(1) Financial risk management

1) Risk management framework

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

2) Credit risk

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

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances.

The Group establishes credit limits for each customer and each new customer is analysed quantitatively and qualitatively before determining whether to utilize third party guarantees, insurance or factoring as appropriate.

The Group does not establish allowances for receivables under insurance and receivables from customers with a high credit rating. For the rest of the receivables, the Group establishes an allowance for impairment of trade and other receivables that have been individually or collectively evaluated for impairment and estimated on the basis of historical loss experience for assets.

(ii) Investments

The Group limits its exposure to credit risk by investing only in liquid securities and only with counterparties that have high credit ratings. Management actively monitors credit ratings and given that the Group only has invested in securities with high credit ratings, does not expect a significant risk that any counterparty fails to meet its obligations.

(iii) Guarantees

The Group provides financial guarantees to subsidiaries, associates and third parties if necessary.

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5. Risk Management, Continued

(1) Financial risk management, continued

3) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has historically been able to satisfy its cash requirements from cash flow from operations and debt and equity financing. To the extent that the Group does not generate sufficient cash flow from operations to meet its capital requirements, the Group may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, equity-linked and other debt securities.

4) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Group. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group, Korean won (KRW). The currencies in which these transactions primarily are denominated are USD, EUR, CNY and JPY.

The Group hedges trade receivables and trade payables denominated in a foreign currency in respect of forecasted sales and purchases. The Group uses forward exchange contracts to hedge its currency risk, most with a maturity of less than two years from the reporting date. When necessary, forward exchange contracts are rolled over at maturity. Trade receivables denominated in a foreign currency have been hedged using forward contracts that mature on the same dates that the receivables are due for collection. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(ii) Interest rate risk

The Group hedges the interest rate risk arising from loans and bonds with floating interest rates through interest rate swaps.

(iii) Other market price risk

The Group is exposed to the price risk arising from available-for-sale equity securities. The effect of 1% changes in price of marketable available-for-sale securities on the total comprehensive income for the years ended December 31, 2015 and 2014 is ₩6,349 million and ₩20,659 million, respectively.

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5. Risk Management, Continued

(2) Capital management

The management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors the liability to equity ratio and net borrowing to equity ratio, which the Group defines as total liabilities divided by total equity and net borrowing divided by total equity.

The Group's liability to equity ratio and net borrowing to equity ratio as of December 31, 2015 and 2014 are as follows:

(In millions of won, except equity ratio)

		<u>2015</u>	<u>2014</u>
Total liabilities	₩	34,233,874	36,745,842
Total equity		15,498,962	16,638,576
Cash and deposits(*1)		3,495,170	3,619,302
Borrowings(*2)		16,852,096	16,543,127
Liability to equity ratio		220.88%	220.85%
Net borrowing to equity ratio(*3)		86.18%	77.67%

(*1) Cash and deposits consist of cash and cash equivalents and short-term and long-term financial instruments.

(*2) Discount on debentures is deducted from the face value of debentures.

(*3) Net borrowing represents borrowings net of cash and deposits.

The interest coverage ratio and basis of calculation for the years ended December 31, 2015 and 2014 are as follows.

(In millions of won, except ratio)

		<u>2015</u>	<u>2014</u>
Operating loss	₩	(1,540,131)	(3,249,455)
Interest		225,663	255,332
Interest coverage ratio		(*)	(*)

(*) Due to operating loss, the Group did not calculate the interest coverage ratio.

6. Short-term and Long-term Financial Assets

Short-term and long-term financial assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		<u>2015</u>		<u>2014</u>	
		<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Financial instruments	₩	387,175	2,692	384,845	5,142
Held-for-trading investments		3,726,853	31,749	3,936,165	31,943
Financial assets at fair value through profit or loss		288,053	268,974	234,009	154,752
Available-for-sale financial assets		217,832	886,068	176,881	2,304,193
Others		7,314	-	10,623	-
	₩	<u>4,627,227</u>	<u>1,189,483</u>	<u>4,742,523</u>	<u>2,496,030</u>

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7. Restricted Financial Instruments and Others

Financial instruments and others, which are restricted in use, as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	Description	Financial institutions	2015	2014	Restrictions
Short-term financial assets	Investor deposits and others	Korea Securities Finance Corporation and others	₩ 188,318	39,650	Investor deposits and others(*)
Trade and other receivables			309,774	303,327	
Long-term financial assets	Deposits in won	KEB Hana Bank and others			Guarantee deposits for checking accounts
			356	122	
			₩ 498,448	343,099	

(*) Short-term financial assets amounted to ₩ 180,000 million is provided as collateral for short-term borrowings ₩ 170,700 million from Industrial Bank of Korea and two other banks, and collateralized amount is ₩ 187,770 million as of December 31, 2015.

8. Trade and Other Receivables and Due from Customers for Contract Work

(1) Trade and other receivables as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	2015		2014	
	Current	Non-current	Current	Non-current
Trade receivables:				
Trade receivables	₩ 5,514,427	491,271	5,095,505	578,820
Allowance for doubtful accounts	(1,233,956)	(189,554)	(1,064,384)	(201,337)
	4,280,471	301,717	4,031,121	377,483
Loan receivables:				
Loan receivables	302,458	14,050	303,443	99,832
Allowance for doubtful accounts	(396)	(2,536)	(407)	(1,698)
	302,062	11,514	303,036	98,134
Other receivables:				
Other accounts receivable	703,220	285	1,075,298	2,882
Allowance for doubtful accounts	(226,554)	(266)	(208,409)	(249)
Accrued income	34,267	-	46,516	-
Allowance for doubtful accounts	(102)	-	(102)	-
Loans	31,360	132,900	5,273	208,237
Allowance for doubtful accounts	-	(300)	-	-
Guarantee deposits	9,130	98,434	10,476	114,797
Deposits	130,526	-	261,015	-
Receivable for finance leases	77,736	45,498	213,031	130,767
Allowance for doubtful accounts	(1,166)	(682)	(3,143)	(1,919)
	758,417	275,869	1,399,955	454,515
	₩ 5,340,950	589,100	5,734,112	930,132

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8. Trade and Other Receivables and Due from Customers for Contract Work, Continued

(2) Due from customers for contract work as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		<u>2015</u>	<u>2014</u>
		Current	Current
Due from customers for contract work	₩	6,599,947	7,154,391
Allowance for doubtful accounts		-	(346)
	₩	<u>6,599,947</u>	<u>7,154,045</u>

9. Finance Leases

(1) Gross investment in leases and the present value of minimum lease payments receivable as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		<u>2015</u>		<u>2014</u>	
		Minimum lease payments	Unguaranteed residual value	Minimum lease payments	Unguaranteed residual value
Less than one year	₩	77,736	-	213,031	-
Later than one year between five years		45,498	-	130,767	-
Total		<u>123,234</u>	<u>-</u>	<u>343,798</u>	<u>-</u>
Unearned finance income		-	-	-	-
Net investment in the lease	₩	123,234	-	343,798	-

(2) There are no contingent rents incurred for the years ended December 31, 2015 and 2014.

10. Inventories

Inventories as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		<u>2015</u>			<u>2014</u>		
		Acquisition cost	Provision for inventory valuation	Carrying amount	Acquisition cost	Provision for inventory valuation	Carrying amount
Merchandise	₩	324,853	(19,932)	304,921	383,805	(20,464)	363,341
Finished goods		576,512	(17,680)	558,832	701,579	(24,292)	677,287
Work-in-progress		1,140,946	(86,783)	1,054,163	1,518,132	(113,486)	1,404,646
Raw materials		1,366,153	(50,746)	1,315,407	2,035,170	(9,576)	2,025,594
Supplies		49,731	(1,680)	48,051	45,807	(778)	45,029
Materials-in-transit		1,210,866	-	1,210,866	1,306,306	-	1,306,306
	₩	<u>4,669,061</u>	<u>(176,821)</u>	<u>4,492,240</u>	<u>5,990,799</u>	<u>(168,596)</u>	<u>5,822,203</u>

The write-down of inventories to net realizable value amounting to ₩8,225 million and ₩1,510 million are included in cost of sales for the years ended December 31, 2015 and 2014, respectively.

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11. Other Assets

Other assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	2015		2014	
	Current	Non-current	Current	Non-current
Advance payments	₩ 1,188,305	-	2,409,984	-
Allowance for doubtful accounts	(63)	-	(62)	-
Prepaid expenses	338,825	44,231	485,235	50,158
Plan assets	-	161	-	1,651
Others(*)	1,020,650	1,497	1,103	12,613
	₩ <u>2,547,717</u>	<u>45,889</u>	<u>2,896,260</u>	<u>64,422</u>

(*) The Group has acquired a vessel under construction due to the cancellation of shipbuilding contract, and recognized it by fair value, for the year ended December 31, 2015 (See note 45).

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12. Investments in Associates

(1) Investments in associates as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won, except percentage of ownership)

Associates	Location	Fiscal year end	Business	2015		2014	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
New Korea Country Club	Korea	December	Country club	29.00	₩ 24,982	40.00	₩ 33,993
Taebaek Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	35.00	7,252	35.00	7,334
Muju Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	45.00	4,657	45.00	4,871
Pyeongchang Wind Power Co., Ltd.(*1)	Korea	December	Sale and manufacture of facilities for wind power generation	23.00	3,129	23.00	3,397
Jinan Jangsu Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	32.00	98	32.00	99
Changjuk Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	43.00	9,916	43.00	9,609
Hyundai Corporation(*2)	Korea	December	Exporting	-	-	22.36	211,305
Daesung Win-Win Fund	Korea	December	Investment service in culture contents field	23.81	10,914	23.81	10,268
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	Korea	December	Venture capital	40.00	2,468	40.00	4,586
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	Korea	December	Venture capital	37.50	7,984	37.50	9,906
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	Korea	December	Collective investment	21.21	4,751	21.21	4,935
Qinhuangdao Shouqin Metal Materials Co., Ltd.	China	December	Thick plate-oriented comprehensive iron manufacturing	20.00	-	20.00	-
PT. Hyundai Machinery Indonesia	Indonesia	December	Import and wholesale of machinery equipment for construction	20.83	-	20.83	-
Hyundai Primorye Ltd.	Russia	December	Farmland leasing service	49.99	3,110	49.99	3,473
Hyundai Green Industries Co., W.L.L.	Kuwait	December	Education	49.00	946	49.00	920
Tribridge Capital Management	Cayman	December	Asset management	23.93	-	23.93	-
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	Korea	December	Other financial	37.13	2,919	41.25	3,635
Hyundai Youth Fund 1	Korea	December	Other financial	23.00	875	-	-
Hyundai Venture Investment corp. hydrogen fund(*3)	Korea	December	Other financial	6.21	192	-	-
HI Global Dynamic Asset Allocation Public Securities Investment Trust	Korea	December	Other financial	49.16	4,821	-	-
				₩	<u>89,014</u>	₩	<u>308,331</u>

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12. Investments in Associates, Continued

(1) Investments in associates as of December 31, 2015 and 2014 are summarized as follows, continued:

(*1) As of December 31, 2015, The Group collateralized its equity securities for Pyeongchang Wind Power Co., Ltd., a related party (see note 46).

(*2) Hyundai Corporation was divided into Hyundai Corporation and Hyundai C&F in a way of equity spin-off for the year ended December 31, 2015. After the spin-off, the percentage of ownership of Hyundai Corporation and Hyundai C&F was decreased by disposal of partial ownership on December 18, 2015. As a result, the Company has no longer significant influence in Hyundai Corporation and Hyundai C&F and its investments have been reclassified to available-for-sale financial asset.

(*3) Although an ownership is less than 20%, the Group includes the company to Investments in Associates because the Group has significant influence which necessary to the main operating and financial policy decisions.

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12. Investments in Associates, Continued

(2) Condensed financial information of associates as of and for the years ended December 31, 2015 and 2014 is summarized as follows:

(In millions of won)

Associates	2015											Dividends received from investments in associates
	Condensed financial information of associates						Operating income (loss)	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)		
	Current assets	Non-Current assets	Current liabilities	Non-Current liabilities	Equity	Sales						
New Korea Country Club	₩ 16,217	18,341	1,088	4,002	29,468	12,350	1,777	1,660	-	1,660	200	
Taebaek Wind Power Co., Ltd.	5,734	42,275	2,562	23,650	21,797	6,626	2,525	(302)	-	(302)	-	
Muju Wind Power Co., Ltd.	10,349	-	-	-	10,349	-	(477)	(477)	-	(477)	-	
Pyeongchang Wind Power Co., Ltd.	1,186	61,379	259	48,700	13,606	-	(523)	(1,164)	-	(1,164)	-	
Jinan Jangsu Wind Power Co., Ltd.	306	-	-	-	306	-	(2)	(1)	-	(1)	-	
Changjuk Wind Power Co., Ltd.	5,856	35,573	1,667	17,386	22,376	6,472	2,810	756	-	756	-	
Daesung Win-Win Fund	35,388	10,609	159	-	45,838	3,353	3,347	2,711	-	2,711	-	
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	2,927	4,656	1,413	-	6,170	1,674	(2,067)	(2,067)	(1,159)	(3,226)	-	
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	2,749	19,033	490	-	21,292	3,939	(757)	(757)	(898)	(1,655)	-	
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	1,318	22,827	1,745	-	22,400	6,242	5,744	5,749	-	5,749	745	
Qinhuangdao Shouqin Metal Materials Co., Ltd.	806,877	1,357,491	2,280,182	160,254	(276,068)	936,084	(209,638)	(210,015)	539	(209,476)	-	
PT. Hyundai Machinery Indonesia	8,593	966	11,906	-	(2,347)	13,310	(241)	(1,372)	31	(1,341)	-	
HYUNDAI Primorye Ltd.	940	3,908	71	-	4,777	355	307	389	(1,117)	(728)	-	
Hyundai Green Industries Co., W.L.L.	-	1,931	-	-	1,931	-	-	-	53	53	-	
Tribridge Capital Management	35	-	75	-	(40)	-	-	-	(1)	(1)	-	
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	1,616	6,265	19	-	7,862	3,141	424	424	-	424	310	
Hyundai Youth Fund 1	1,930	2,000	126	-	3,804	19	(196)	(196)	-	(196)	-	
Hyundai Venture Investment corp. hydrogen fund	3,168	-	81	-	3,087	16	(133)	(133)	-	(133)	-	
HI Global Dynamic Asset Allocation Public Securities Investment Trust	6,881	3,563	636	-	9,808	157	43	43	-	43	-	
	₩ 912,070	1,590,817	2,302,479	253,992	(53,584)	993,738	(197,057)	(204,752)	(2,552)	(207,304)	1,255	

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12. Investments in Associates, Continued

(2) Condensed financial information of associates as of and for the years ended December 31, 2015 and 2014 is summarized as follows, continued

(In millions of won)

Associates	2014										
	Condensed financial information of associates										Dividends received from investments in associates
	Current assets	Non-Current assets	Current liabilities	Non-Current liabilities	Equity	Sales	Operating income (loss)	Profit (loss)	Other comprehensive income	Total comprehensive income	
New Korea Country Club	₩ 33,678	15,854	17,389	3,835	28,308	11,727	1,152	1,301	-	1,301	200
Taebaek Wind Power Co., Ltd.	4,585	46,191	2,998	25,679	22,099	10,362	6,157	3,856	-	3,856	1,387
Muju Wind Power Co., Ltd.	10,577	249	-	-	10,826	-	(20)	(4)	-	(4)	-
Pyeongchang Wind Power Co., Ltd.	1,144	13,628	2	-	14,770	-	(524)	(513)	-	(513)	-
Jinan Jangsu Wind Power Co., Ltd.	308	-	-	-	308	-	(1)	(1)	-	(1)	-
Changjuk Wind Power Co., Ltd.	3,924	38,425	2,007	18,723	21,619	10,487	7,130	4,741	-	4,741	1,852
Hyundai Corporation	1,433,085	493,576	1,146,017	113,622	667,022	5,366,815	38,908	33,858	49,945	83,803	2,496
Daesung Win-Win Fund	34,642	8,650	165	-	43,127	1,971	1,965	(1,378)	-	(1,378)	-
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	2,948	9,943	1,426	-	11,465	248	(453)	(447)	1,157	710	-
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	2,370	24,227	180	-	26,417	318	(918)	(918)	1,157	239	-
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	2,144	22,126	1,004	-	23,266	213	(1,124)	(1,107)	-	(1,107)	-
Qinhuangdao Shouqin Metal Materials Co., Ltd.	716,930	1,415,153	2,030,973	167,704	(66,594)	1,286,741	(107,019)	(110,688)	(3,071)	(113,759)	-
PT. Hyundai Machinery Indonesia	11,371	1,515	13,892	-	(1,006)	23,129	969	860	(146)	714	-
HYUNDAI Primorye Ltd.	1,125	4,463	84	-	5,504	564	509	678	(3,346)	(2,668)	-
Hyundai Green Industries Co., W.L.L.	-	1,878	-	-	1,878	-	-	-	7	7	-
Tribridge Capital Management	32	-	68	-	(36)	-	(285)	(601)	(172)	(773)	-
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	10,343	-	1,531	-	8,812	1,193	812	812	-	812	-
	₩ 2,269,206	2,095,878	3,217,736	329,563	817,785	6,713,768	(52,742)	(69,551)	45,531	(24,020)	5,935

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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For the years ended December 31, 2015 and 2014

12. Investments in Associates, Continued

(3) Changes in equity-method accounted investees for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

Associates	2015					
	Beginning balance	Acquisition (disposal)	Share of profit (loss) of equity accounted investees	Changes in equity of equity accounted investees	Dividends received	Ending balance
New Korea Country Club	₩ 33,993	(9,293)	481	1	(200)	24,982
Taebaek Wind Power Co., Ltd.	7,334	-	(82)	-	-	7,252
Muju Wind Power Co., Ltd.	4,871	-	(214)	-	-	4,657
Pyeongchang Wind Power Co., Ltd.	3,397	-	(268)	-	-	3,129
Jinan Jangsu Wind Power Co., Ltd.	99	-	(1)	-	-	98
Changjuk Wind Power Co., Ltd.	9,609	-	307	-	-	9,916
Hyundai Corporation	211,305	(230,137)	6,112	15,216	(2,496)	-
Daesung Win-Win Fund	10,268	-	646	-	-	10,914
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	4,586	(828)	(827)	(463)	-	2,468
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	9,906	(1,301)	(284)	(337)	-	7,984
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	4,935	(658)	1,219	-	(745)	4,751
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*)	-	-	-	-	-	-
PT. HYUNDAI MACHINERY INDONESIA (*)	-	-	-	-	-	-
Hyundai Primorye Ltd.	3,473	-	195	(558)	-	3,110
Hyundai Green Industries Co., W.L.L.	920	-	-	26	-	946
Tribridge Capital Management (*)	-	-	-	-	-	-
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	3,635	(439)	33	-	(310)	2,919
Hyundai Youth Fund 1	-	920	(45)	-	-	875
Hyundai Venture Investment corp. hydrogen fund	-	200	(8)	-	-	192
HI Global Dynamic Asset Allocation Public Securities Investment Trust	-	4,800	21	-	-	4,821
	₩ <u>308,331</u>	<u>(236,736)</u>	<u>7,285</u>	<u>13,885</u>	<u>(3,751)</u>	<u>89,014</u>

(*) Application of equity method was discontinued as book value reduced to nil due to accumulated loss. The unrecognized changes in equity amounted to ₩55,712 million.

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For the years ended December 31, 2015 and 2014

12. Investments in Associates, Continued

(3) Changes in equity-method accounted investees for the years ended December 31, 2015 and 2014 are summarized as follows, continued

(In millions of won)

Associates	2014					
	Beginning balance	Acquisition (disposal)	Share of profit (loss) of equity accounted investees	Changes in equity of equity accounted investees	Dividends received	Ending balance
New Korea Country Club	₩ 33,672	-	521	-	(200)	33,993
Hyundai Merchant Marine Co., Ltd.	69,815	(83,469)	(13,368)	27,022	-	-
Taebaek Wind Power Co., Ltd.	7,348	-	1,373	-	(1,387)	7,334
Muju Wind Power Co., Ltd.	4,873	-	(2)	-	-	4,871
Pyeongchang Wind Power Co., Ltd.	840	2,673	(100)	(16)	-	3,397
Jinan Jangsu Wind Power Co., Ltd.	99	-	-	-	-	99
Changjuk Wind Power Co., Ltd.	9,440	-	2,021	-	(1,852)	9,609
Hyundai Corporation	181,389	-	16,185	16,228	(2,497)	211,305
Daesung Win-Win Fund	10,597	-	(329)	-	-	10,268
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	5,561	(1,259)	(179)	463	-	4,586
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	5,579	4,238	(345)	434	-	9,906
The Second Partners Win-Win Investment Fund	245	-	(245)	-	-	-
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	5,177	(7)	(235)	-	-	4,935
Qinhuangdao Shouqin Metal Materials Co., Ltd. (*)	9,433	-	(9,262)	(171)	-	-
PT. HYUNDAI MACHINERY INDONESIA (*)	-	-	-	-	-	-
Hyundai Primorye Ltd.	4,807	-	339	(1,673)	-	3,473
Hyundai Green Industries Co., W.L.L.	917	-	-	3	-	920
Tribridge Capital Management (*)	-	-	-	-	-	-
Mahy E-Cell	13,494	(13,494)	-	-	-	-
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	-	3,325	310	-	-	3,635
	₩ <u>363,286</u>	<u>(87,993)</u>	<u>(3,316)</u>	<u>42,290</u>	<u>(5,936)</u>	<u>308,331</u>

(*) Application of equity method was discontinued as book value reduced to nil due to accumulated loss. The unrecognized changes in equity amounted to ₩13,538 million.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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12. Investments in Associates, Continued

(4) Reconciliation from net assets of the associates to the carrying amount of investments in associates in the Group's consolidated financial statements as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

Associates	2015						
	Ending net assets	Percentage of the Group's ownership	Net value	Corporate adjustments (e.g.: goodwill etc.)	Elimination of inter-segment transactions and unrealized profits and losses	Others	Ending carrying amount
New Korea Country Club	₩ 29,468	29.00%	8,546	16,436	-	-	24,982
Taebaek Wind Power Co., Ltd.	21,797	35.00%	7,629	-	(377)	-	7,252
Muju Wind Power Co., Ltd.	10,349	45.00%	4,657	-	-	-	4,657
Pyeongchang Wind Power Co., Ltd.	13,606	23.00%	3,129	-	-	-	3,129
Jinan Jangsu Wind Power Co., Ltd.	306	32.00%	98	-	-	-	98
Changjuk Wind Power Co., Ltd.	22,376	43.00%	9,622	-	294	-	9,916
Daesung Win-Win Fund	45,838	23.81%	10,914	-	-	-	10,914
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	6,170	40.00%	2,468	-	-	-	2,468
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	21,292	37.50%	7,984	-	-	-	7,984
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	22,400	21.21%	4,751	-	-	-	4,751
Qinhuangdao Shouqin Metal Materials Co., Ltd.	(276,068)	20.00%	(55,214)	-	-	55,214	-
PT. Hyundai Machinery Indonesia	(2,347)	20.83%	(489)	-	-	489	-
HYUNDAI Primorye Ltd.	4,777	49.99%	2,388	722	-	-	3,110
Hyundai Green Industries Co., W.L.L.	1,931	49.00%	946	-	-	-	946
Tribridge Capital Management	(40)	23.93%	(9)	-	-	9	-
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	7,862	37.13%	2,919	-	-	-	2,919
Hyundai Youth Fund 1	3,804	23.00%	875	-	-	-	875
Hyundai Venture Investment corp. hydrogen fund	3,087	6.21%	192	-	-	-	192
HI Global Dynamic Asset Allocation Public Securities Investment Trust	9,808	49.16%	4,821	-	-	-	4,821
	₩ (53,584)		16,227	17,158	(83)	55,712	89,014

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For the years ended December 31, 2015 and 2014

12. Investments in Associates, Continued

- (4) Reconciliation from net assets of the associates to the carrying amount of investments in associates in the Group's consolidated financial statements as of December 31, 2015 and 2014 are summarized as follows, continued:

(In millions of won)

Associates	Ending net assets	Percentage of the Group's ownership	Net value	2014				Ending carrying amount
				Corporate adjustments (e.g.: goodwill etc.)	Elimination of inter-segment transactions and unrealized profits and losses	Others		
New Korea Country Club	₩ 28,308	40.00%	11,323	22,670	-	-	33,993	
Taebaek Wind Power Co., Ltd.	22,099	35.00%	7,735	-	(401)	-	7,334	
Muju Wind Power Co., Ltd.	10,826	45.00%	4,871	-	-	-	4,871	
Pyeongchang Wind Power Co., Ltd.	14,770	23.00%	3,397	-	-	-	3,397	
Jinan Jangsu Wind Power Co., Ltd.	308	32.00%	99	-	-	-	99	
Changjuk Wind Power Co., Ltd.	21,619	43.00%	9,297	-	312	-	9,609	
Hyundai Corporation (*)	667,022	22.36%	139,112	72,262	(69)	-	211,305	
Daesung Win-Win Fund	43,127	23.81%	10,268	-	-	-	10,268	
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	11,465	40.00%	4,586	-	-	-	4,586	
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	26,417	37.50%	9,906	-	-	-	9,906	
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	23,266	21.21%	4,935	-	-	-	4,935	
Qinhuangdao Shouqin Metal Materials Co., Ltd.	(66,594)	20.00%	(13,319)	-	-	13,319	-	
PT. Hyundai Machinery Indonesia	(1,006)	20.83%	(210)	-	-	210	-	
HYUNDAI Primorye Ltd.	5,504	49.99%	2,751	722	-	-	3,473	
Hyundai Green Industries Co., W.L.L.	1,878	49.00%	920	-	-	-	920	
Tribridge Capital Management	(36)	23.93%	(9)	-	-	9	-	
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	8,812	41.25%	3,635	-	-	-	3,635	
	₩ <u>817,785</u>		<u>199,297</u>	<u>95,654</u>	<u>(158)</u>	<u>13,538</u>	<u>308,331</u>	

(*) The net asset value of associates represents the amount attributable to the controlling interests in the associates.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

13. Investments in Joint Ventures

(1) Investments in joint ventures as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won, except percentage of ownership)

Joint ventures	Location	Fiscal year end	Particulars	2015		2014	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Wärtsilä-Hyundai Engine Company Ltd.	Korea	December	Manufacture, assemble and test of marine engines and parts	50.00	₩ 84,440	50.00	₩ 98,556
Hyundai Cummins Engine Company	Korea	December	Manufacture of engines	50.00	6,482	50.00	20,802
Hyundai-Avancis Co., Ltd.	Korea	December	Sale and manufacture of solar module	50.00	14,293	50.00	32,333
Hyundai Cosmo Petrochemical Co., Ltd.	Korea	December	Manufacturing of petrochemicals	50.00	73,406	50.00	92,714
Grand China Hyundai Shipping Co., Ltd.	Hong Kong	December	Acquiring, renting, leasing and chartering of bulk carrier	-	-	50.00	59
BMC Hyundai S.A.	Brazil	December	Sale of machinery equipment for construction	30.00	-	30.00	-
Hyundai Agro-Bio fund I	Korea	December	Other financial business	50.00	2,417	50.00	1,495
					₩ 181,038		₩ 245,959

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2015 and 2014

13. Investments in Joint Ventures, Continued

(2) Condensed financial information of joint ventures as of and for the years ended December 31, 2015 and 2014 is summarized as follows:

1) Summary finance information

(In millions of won)

Joint ventures	2015										
	Condensed financial information of joint ventures										Dividends received from investments in joint ventures
	Current assets	Non-Current assets	Current liabilities	Non-Current liabilities	Equity	Sales	Operating income (loss)	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	
Wärtsilä-Hyundai Engine Company Ltd.	₩ 304,060	50,937	150,218	35,778	169,001	342,190	60,045	42,293	-	42,293	35,229
Hyundai Cummins Engine Company	14,683	280	530	1,467	12,966	30,857	(11,617)	(92,330)	-	(92,330)	-
Hyundai-Avancis Co., Ltd.	19,389	12,041	553	405	30,472	-	(2,287)	(36,131)	-	(36,131)	-
Hyundai Cosmo Petrochemical Co., Ltd.	275,654	883,760	321,263	444,241	393,910	2,155,732	(13,241)	(41,779)	1,179	(40,600)	-
BMC Hyundai S.A.	106,140	16,184	66,117	81,661	(25,454)	146,814	2,266	(6,447)	8,823	2,376	-
Hyundai Agro-Bio fund I	400	4,500	67	-	4,833	99	(156)	(157)	-	(157)	-
	₩ 720,326	967,702	538,748	563,552	585,728	2,675,692	35,010	(134,551)	10,002	(124,549)	35,229

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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For the years ended December 31, 2015 and 2014

13. Investments in Joint Ventures, Continued

- (2) Condensed financial information of joint ventures as of and for the years ended December 31, 2015 and 2014 is summarized as follows, continued
1) Summary finance information, continued

(In millions of won)

Joint ventures	2014										Dividends received from investments in joint ventures
	Condensed financial information of joint ventures										
	Current assets	Non-Current assets	Current liabilities	Non-Current liabilities	Equity	Sales	Operating income (loss)	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	
Wärtsilä-Hyundai Engine Company Ltd.	₩ 387,419	54,143	214,007	30,389	197,166	396,006	89,676	70,569	(111)	70,458	27,137
Hyundai Cummins Engine Company	26,187	86,050	11,350	59,284	41,603	25,343	(17,248)	(18,513)	(158)	(18,671)	-
Hyundai-Avancis Co., Ltd.	21,250	46,697	599	745	66,603	-	(2,427)	(1,681)	-	(1,681)	-
Hyundai Cosmo Petrochemical Co., Ltd.	344,415	902,415	366,654	445,666	434,510	2,885,284	(85,259)	(112,350)	(997)	(113,347)	-
Grand China Hyundai Shipping Co., Ltd.	119	-	-	-	119	-	(5)	(5)	5	-	-
BMC Hyundai S.A.	144,485	4,283	163,239	13,359	(27,830)	271,235	(19,844)	(42,467)	2,136	(40,331)	-
Hyundai Agro-Bio fund I	3,003	-	13	-	2,990	3	(11)	(11)	-	(11)	-
	₩ 926,878	1,093,588	755,862	549,443	715,161	3,577,871	(35,118)	(104,458)	875	(103,583)	27,137

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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For the years ended December 31, 2015 and 2014

13. Investments in Joint Ventures, Continued

- (2) Condensed financial information of joint ventures as of and for the years ended December 31, 2015 and 2014 is summarized as follows, continued
2) Additional financial information

(In millions of won)

Joint ventures	2015						
	Cash and cash equivalents	Current financial liabilities	Non-current financial liabilities	Depreciation	Interest revenues	Interest expenses	Tax expense
Wärtsilä-Hyundai Engine Company Ltd.	₩ 64,918	-	-	4,413	1,088	-	14,994
Hyundai Cummins Engine Company	7,162	-	-	3,961	25	1,625	-
Hyundai-Avancis Co., Ltd.	18,746	-	-	615	353	-	-
Hyundai Cosmo Petrochemical Co., Ltd.	1,159	38,455	436,034	48,502	301	27,799	-
BMC Hyundai S.A.	693	26,058	-	1,989	657	8,107	-
Hyundai Agro-Bio fund I	365	-	-	-	-	-	-
	₩ 93,043	64,513	436,034	59,480	2,424	37,531	14,994

(In millions of won)

Joint ventures	2014						
	Cash and cash equivalents	Current financial liabilities	Non-current financial liabilities	Depreciation	Interest revenues	Interest expenses	Tax expense
Wärtsilä-Hyundai Engine Company Ltd.	₩ 33,613	-	-	4,473	2,033	-	17,873
Hyundai Cummins Engine Company	2,232	-	58,580	4,719	111	2,145	-
Hyundai-Avancis Co., Ltd.	20,436	599	745	615	583	92	-
Hyundai Cosmo Petrochemical Co., Ltd.	27,767	173,767	432,938	70,345	1,722	29,032	-
Grand China Hyundai Shipping Co., Ltd.	118	-	-	-	-	-	-
BMC Hyundai S.A.	4,432	37,260	13,359	1,027	1,627	24,250	-
Hyundai Agro-Bio fund I	3,003	-	-	-	-	-	-
	₩ 91,601	211,626	505,622	81,179	6,076	55,519	17,873

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For the years ended December 31, 2015 and 2014

13. Investments in Joint Ventures, Continued

(3) Changes in equity-method accounted joint ventures for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

Joint ventures	2015					
	Beginning balance	Acquisition	Share of profit (loss) of equity accounted investees	Changes in equity of equity accounted investees	Dividends received	Ending balance
Wärtsilä-Hyundai Engine Company Ltd.	₩ 98,556	-	21,113	-	(35,229)	84,440
Hyundai Cummins Engine Company	20,802	32,000	(46,167)	(153)	-	6,482
Hyundai-Avancis Co., Ltd.	32,333	-	(18,040)	-	-	14,293
Hyundai Cosmo Petrochemical Co., Ltd.	92,714	-	(19,897)	589	-	73,406
Grand China Hyundai Shipping Co., Ltd.	59	21	-	(80)	-	-
BMC Hyundai S.A. (*)	-	-	-	-	-	-
Hyundai Agro-Bio fund I	1,495	1,000	(78)	-	-	2,417
	₩ 245,959	33,021	(63,069)	356	(35,229)	181,038

(*) Application of equity method was discontinued as book value reduced to nil due to accumulated loss. The unrecognized changes in equity amounted to ₩2,441 million.

(In millions of won)

Joint ventures	2014					
	Beginning balance	Acquisition	Share of profit (loss) of equity accounted investees	Changes in equity of equity accounted investees	Dividends received	Ending balance
Wärtsilä-Hyundai Engine Company Ltd.	₩ 90,388	-	35,360	(55)	(27,137)	98,556
Hyundai Cummins Engine Company	28,092	2,055	(9,256)	(89)	-	20,802
Hyundai-Avancis Co., Ltd.	33,149	-	(816)	-	-	32,333
Hyundai Cosmo Petrochemical Co., Ltd.	146,690	-	(53,477)	(499)	-	92,714
Grand China Hyundai Shipping Co., Ltd.	59	-	(2)	2	-	59
BMC Hyundai S.A. (*)	-	5,338	(5,588)	250	-	-
Hyundai Agro-Bio fund I	-	1,500	(5)	-	-	1,495
	₩ 298,378	8,893	(33,784)	(391)	(27,137)	245,959

(*) Application of equity method was discontinued as book value reduced to nil due to accumulated loss. The unrecognized changes in equity amounted to ₩5,558 million.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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13. Investments in Joint Ventures, Continued

(4) Reconciliation from net assets of the joint ventures to the carrying amount of investments in joint ventures in the Group's consolidated financial statements as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

Joint ventures	Ending net assets	Group's ownership	Net value	2015			Ending carrying amount
				Elimination of inter-segment transactions and unrealized profits and losses	Others		
Wärtsilä-Hyundai Engine Company Ltd.	₩ 169,001	50.00%	84,500	(60)	-		84,440
Hyundai Cummins Engine Company	12,966	50.00%	6,482	-	-		6,482
Hyundai-Avancis Co., Ltd.	30,472	50.00%	15,236	(943)	-		14,293
Hyundai Cosmo Petrochemical Co., Ltd.	393,910	50.00%	196,955	(123,549)	-		73,406
BMC Hyundai S.A.	(25,454)	30.00%	(7,636)	5,195	2,441		-
Hyundai Agro-Bio fund I	4,833	50.00%	2,417	-	-		2,417
	₩ 585,728		297,954	(119,357)	2,441		181,038

(In millions of won)

Joint ventures	Ending net assets	Group's ownership	Net value	2014			Ending carrying amount
				Elimination of inter-segment transactions and unrealized profits and losses	Others		
Wärtsilä-Hyundai Engine Company Ltd.	₩ 197,166	50.00%	98,583	(27)	-		98,556
Hyundai Cummins Engine Company	41,603	50.00%	20,802	-	-		20,802
Hyundai-Avancis Co., Ltd.	66,603	50.00%	33,302	(969)	-		32,333
Hyundai Cosmo Petrochemical Co., Ltd.	434,510	50.00%	217,255	(124,541)	-		92,714
Grand China Hyundai Shipping Co., Ltd.	119	50.00%	59	-	-		59
BMC Hyundai S.A.	(27,830)	30.00%	(8,349)	2,791	5,558		-
Hyundai Agro-Bio fund I	2,990	50.00%	1,495	-	-		1,495
	₩ 715,161		363,147	(122,746)	5,558		245,959

14. Joint Operation

The joint operation as of December 31, 2015 is summarized as follows:

Joint operation	Main Office	Main business	Ownership (%)	
			2015	2014
FDH JV(*1)	Kuwait	Chemical plant	33.33	33.33
FDH JV(*2)	Kuwait	Chemical plant	20.00	-

(*1) The Group holds a significant joint operation 'FDH JV' as of December 31, 2015 and 2014. FDH JV is a joint operation of which the main purpose of is the construction of Clean Fuels Project MAB2 EPC PKG ordered by Kuwait National Petroleum Company. The Group recognizes the assets and liabilities relating to its interest in the joint operation and recognizes revenues and expenses relating to its interest in a joint operation.

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14. Joint Operation, Continued

(*2) The Group holds a significant joint operation 'FDH JV' as of December 31, 2015. FDH JV is a joint operation of which the main purpose of is the construction of Al Zour Refinery Project Package 2 & 3 EPC PKG ordered by Kuwait National Petroleum Company. The Group recognizes the assets and liabilities relating to its interest in the joint operation and recognizes revenues and expenses relating to its interest in a joint operation.

15. Available-for-sale Financial Assets

Available-for-sale financial assets as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	2015			2014		
	Ownership (%)	Acquisition Cost	Carrying amount	Ownership (%)	Acquisition Cost	Carrying amount
Rented equity securities:						
Hyundai Merchant Marine Co., Ltd (*2,3)	4.82	₩ 97,142	₩ 43,279	-	₩ -	-
Listed equity securities:						
Hyundai Motors Corporation (*1)	0.75	118,863	246,491	3.03	487,007	1,126,385
POSCO (*1,2)	-	-	-	1.50	731,602	360,354
Hyundai Merchant Marine Co., Ltd. (*2,3)	10.78	217,141	96,741	18.60	314,283	339,032
KCC Corporation	3.77	78,927	165,748	3.77	78,927	206,440
Korea Environment Technology Co., Ltd.	10.88	2,733	14,144	10.88	2,733	14,851
Hyundai Corporation (*4)	2.99	11,105	11,323	-	-	-
Hyundai C&F Inc. (*4)	10.11	29,499	28,257	-	-	-
Sejin Heavy Industries Co., Ltd (*5)	14.53	22,500	15,375	-	-	-
Others		8,490	13,575		14,943	18,855
		<u>489,258</u>	<u>591,654</u>		<u>1,629,495</u>	<u>2,065,917</u>
Unlisted equity securities (*6):						
Daehan Oil Pipeline Corporation (*7)	6.39	14,512	32,819	6.39	14,512	33,117
Sejin Heavy Industries Co., Ltd (*5)	-	-	-	14.53	22,500	22,500
Korea Exchange	0.40	3,000	11,481	0.40	3,000	11,470
Doosan Capital Co., Ltd.	-	-	-	7.14	10,000	6,214
OSX Construcao Naval S.A.	0.20	57,498	-	10.00	57,498	-
Hynix Semiconductor America Inc.	1.33	34,525	-	1.33	34,525	-
Others		65,657	53,845		78,629	64,301
		<u>175,192</u>	<u>98,145</u>		<u>220,664</u>	<u>137,602</u>
Beneficiary certificates:						
HI Global Top Picks China Securities Feeder Investment Trust		54,969	49,474		46,097	42,514
Debt securities						
Monetary stabilization bond and others		284,053	282,656		196,087	195,843
Investments in capital and others						
Joint compensation fund for loss incurred from contravention of contracts (*8)		39,386	38,692		39,863	39,198
	₩	<u>1,140,000</u>	<u>1,103,900</u>	₩	<u>2,132,206</u>	<u>2,481,074</u>

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15. Available-for-sale Financial Assets, Continued

- (*1) The Group has sold part of Hyundai Motor Group's equity securities (5,010,700 shares, acquisition cost of ₩368,144 million, carrying amount of ₩846,808 million) amounted to ₩797,518 million for the purpose of enhancing the financial stability during 2015, and recognized gain on disposal of ₩429,374 million. Also, the Group has disposed entire POSCO's equity securities amounted to ₩224,909 million, and recognized loss on disposal of ₩68,083 million.
- (*2) For the year ended December 31, 2015, the Group recognized an impairment loss of ₩174,263 million and ₩67,362 million on Hyundai Merchant Marine Co., Ltd and POSCO, respectively, due to the significant decline in the fair value of the shares for a prolonged period.
- (*3) During the year ended December 31, 2015, the Group issued exchangeable bond that is exchangeable to common stocks of Hyundai Merchant Marine Co., Ltd. which are listed equity securities the Company holds. The total number of exchangeable stocks is 23,424,037 shares. Should the exchangeable bond be exchanged to common stocks of Hyundai Merchant Marine Co., Ltd. entirely, the percentage of ownership in the Group's investment in Hyundai Merchant Marine Co., Ltd. would decrease from 10.78% to 0.00%. Upon issuance of the exchangeable bond, the Group deposited common stocks of Hyundai Merchant Marine Co., Ltd. in Korea Securities Depository, and disposal of the stocks is restricted. In conjunction with this transaction, the Group entered into an agreement with Merrill Lynch International and The Hong Kong and Shanghai Banking Corporation Limited to lend up to 10,479,174 shares of the common stocks of Hyundai Merchant Marine Co., Ltd. which was previously held by Hyundai Samho Heavy Industries Co., Ltd., one of the Company's subsidiaries. The number of common stocks Hyundai Samho Heavy Industries Co., Ltd. lent pursuant to this agreement is 10,479,174 shares as of December 31, 2015. According to this stock lending agreement, the stocks lent by Hyundai Samho Heavy Industries Co., Ltd. do not have voting rights and are restricted in disposal.
- (*4) Hyundai Corporation was divided into Hyundai Corporation and Hyundai C&F in a way of equity spin-off for the year ended December 31, 2015. After the spin-off, the percentage of ownership of Hyundai Corporation and Hyundai C&F was decreased by disposal of partial ownership on December 18, 2015. As a result, the Company has no longer significant influence in Hyundai Corporation and Hyundai C&F and its investments have been reclassified to available-for-sale financial asset.
- (*5) For the year ended December 31, 2015, Sejin Heavy Industries Co., Ltd has been reclassified as listed equity security due to its initial public offering.
- (*6) Unless otherwise noted, the carrying amounts of unlisted equity securities were recorded at their acquisition cost since their fair values cannot be reliably measured.
- (*7) The fair value of Daehan Oil Pipeline Corporation was calculated by using the discounted cash flow method and based on estimation of free cash flow.
- (*8) As of December 31, 2015 and 2014, this includes a damage compensation joint fund, for which the use is restricted, in the amounts of ₩8,125 million and ₩8,736 million, respectively. The damage compensation joint fund is the amount the Group deposited with in Korea Exchange in order to compensate for the damages that occurs from the breach of selling agreements, pursuant to the Financial Investment Services and Capital Markets Act, Section 394 and others.

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16. Investment Property

(1) Changes in investment property for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		
		Land	Buildings	Total
Beginning balance	₩	226,887	166,588	393,475
Acquisition and other		(17,348)	(19,874)	(37,222)
Depreciation		-	(8,404)	(8,404)
Effects of movements in exchange rates		-	19	19
Ending balance	₩	<u>209,539</u>	<u>138,329</u>	<u>347,868</u>
Acquisition cost		209,539	176,338	385,877
Accumulated depreciation		-	(38,009)	(38,009)

(In millions of won)

		2014		
		Land	Buildings	Total
Beginning balance	₩	260,814	172,803	433,617
Acquisition and other		(18,640)	1,235	(17,405)
Disposals		(15,287)	-	(15,287)
Depreciation		-	(7,468)	(7,468)
Effects of movements in exchange rates		-	18	18
Ending balance	₩	<u>226,887</u>	<u>166,588</u>	<u>393,475</u>
Acquisition cost		226,887	204,810	431,697
Accumulated depreciation		-	(38,222)	(38,222)

(2) Revenue and expense from investment property for the years ended December 31, 2015 and 2014 is as follows:

(In millions of won)

		2015	2014
Rental income	₩	10,775	11,472
Operating and maintenance expense arising from investment property that generated rental income		7,004	7,308
Operating and maintenance expense arising from investment property that did not generate rental income		75	52

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16. Investment Property, Continued

(3) Fair value of investment property for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015		2014	
	Book value	Fair value	Book value	Fair value
Land	₩ 209,539	333,634	226,887	317,791
Buildings	138,329	217,646	166,588	232,824
	₩ 347,868	551,280	393,475	550,615

The fair value of investment property was determined by external, independent appraisers, having appropriate recognized professional qualifications and experience in relation to the assessment of real estate in the Republic of Korea as of January 1, 2010 when the K-IFRS was adopted. The valuation is measured by using comparison methods to obtain the economic value based on marketability of the property. The Group calculated fair value considering the standard market price after transition date to K-IFRS, in order to estimate the fair value of investment property as of December 31, 2015.

17. Property, Plant and Equipment

(1) Changes in property, plant and equipment for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015						
	Land	Buildings	Structures	Machinery and equipment	Construction in-progress	Others	Total
Beginning balance	₩ 4,413,775	3,172,324	2,779,593	4,142,572	693,083	858,875	16,060,222
Acquisitions and other	40,967	270,331	50,596	208,988	254,252	481,273	1,306,407
Disposals	(18,768)	(14,571)	(2,170)	(9,738)	(14)	(4,912)	(50,173)
Depreciation	-	(113,938)	(104,422)	(427,951)	-	(306,846)	(953,157)
Impairment	-	(13,200)	(1,042)	(5,784)	(12,475)	(102)	(32,603)
Effect of movements in exchange rates	(2,136)	(10,135)	3,615	(4,632)	233	2,393	(10,662)
Effects of changes in scope of consolidation	-	-	-	-	-	(32)	(32)
Ending balance	₩ 4,433,838	3,290,811	2,726,170	3,903,455	935,079	1,030,649	16,320,002
Acquisition cost	4,435,479	4,541,970	3,880,668	8,407,325	962,134	3,547,814	25,775,390
Government grants	(1,641)	(9,117)	(2,291)	(398)	-	(3,594)	(17,041)
Accumulated depreciation	-	(1,230,739)	(1,151,315)	(4,449,698)	-	(2,512,271)	(9,344,023)
Accumulated impairment	-	(11,303)	(892)	(53,774)	(27,055)	(1,300)	(94,324)

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17. Property, Plant and Equipment, Continued

- (1) Changes in property, plant and equipment for the years ended December 31, 2015 and 2014 are as follows, continued:

(In millions of won)

	2014						
	Land	Buildings	Structures	Machinery and equipment	Construction in-progress	Others	Total
Beginning balance	₩ 4,444,946	3,266,834	2,712,836	3,975,114	522,861	790,406	15,712,997
Acquisitions and other	73,316	44,808	167,456	612,777	187,516	344,993	1,430,866
Disposals	(102,780)	(7,985)	(1,559)	(9,086)	(1,068)	(5,304)	(127,782)
Depreciation	-	(110,258)	(101,202)	(432,712)	-	(271,884)	(916,056)
Impairment	-	-	-	-	(15,542)	-	(15,542)
Effect of movements in exchange rates	(1,707)	(21,075)	2,062	(3,521)	(684)	664	(24,261)
Ending balance	₩ 4,413,775	3,172,324	2,779,593	4,142,572	693,083	858,875	16,060,222
Acquisition cost	4,415,314	4,300,117	3,827,467	8,323,030	708,625	3,159,259	24,733,812
Government grants	(1,539)	(9,255)	(2,147)	(448)	-	(4,985)	(18,374)
Accumulated depreciation	-	(1,118,538)	(1,045,727)	(4,096,975)	-	(2,294,186)	(8,555,426)
Accumulated impairment	-	-	-	(83,035)	(15,542)	(1,213)	(99,790)

- (2) During 2015, due to the continuous loss and low profitability of some fixed assets, the Group assessed the recoverable amount of the fixed assets (CGU). The recoverable amount of the CGU was estimated based on its value in use. As a result, the carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss of ₩32,603 million was recognized, and the estimate of value in use was determined using a pre-tax discount rate of 14.20% for the year ended December 31, 2015.
- (3) Construction-in-progress is related to the construction of employee dormitory buildings, the development and construction of Ihwa Industrial Park and construction of petrochemical refinery facility in Korea as of December 31, 2015.

18. Intangible Assets

- (1) Changes in goodwill for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Beginning balance	₩ 1,360,149	1,399,915
Impairment loss	-	(39,640)
Effects of changes in scope of consolidation	-	(126)
Ending balance	₩ 1,360,149	1,360,149
Acquisition cost	1,515,282	1,515,282
Accumulated impairment loss	(155,133)	(155,133)

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18. Intangible Assets, Continued

(1) Changes in goodwill for the years ended December 31, 2015 and 2014 are as follows, continued:

Details of goodwill as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<u>2015</u>	<u>2014</u>
Hyundai Oilbank Co., Ltd	₩	1,087,419	1,087,419
HI Investment & Securities Co., Ltd. And subsidiaries		251,899	251,899
Hyundai Samho Heavy Industry Co., Ltd		13,141	13,141
Hyundai (Shandong) Heavy Industries Co., Ltd.		7,690	7,690
Others		-	-
	₩	<u>1,360,149</u>	<u>1,360,149</u>

On annual basis, the Group conducts impairment test for goodwill, and assesses the recoverable amount of the cash generating unit to which goodwill was allocated.

The recoverable amount of the cash generating unit is determined based on value in use. The estimate of value in use was determined by discounting the future cash flows to be generated from the continuing use of the asset.

As of December 31, 2015, assumptions used in estimating value in use of for CGUs to which significant goodwill has been assigned are as follows:

	<u>Hyundai Oilbank Co., Ltd.</u>	<u>HI Investment & Securities Co., Ltd.</u>	<u>HI Asset Management Co., Ltd.</u>
Pre-tax discount rate (%)	9.60	11.94	9.10
Permanent growth rate (%)	1.80	1.80	1.80

(2) Changes in intangible assets other than goodwill for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		<u>2015</u>						
		<u>Development costs</u>	<u>Networks</u>	<u>Customer relationships</u>	<u>Brands</u>	<u>Know-how</u>	<u>Other intangible assets</u>	<u>Total</u>
Beginning balance	₩	335,135	79,879	56,552	192,220	34,895	152,798	851,479
Acquisitions and other		43,353	-	-	-	-	15,359	58,712
Disposals		-	-	-	-	-	(19,761)	(19,761)
Amortization		(79,288)	(5,126)	(12,340)	-	(3,014)	(6,911)	(106,679)
Impairment loss		-	-	-	-	-	(3,006)	(3,006)
Effect of movements in exchange rates		8	-	-	-	-	(60)	(52)
Effects of changes in scope of consolidation		-	-	-	-	-	(657)	(657)
Ending balance(*)	₩	<u>299,208</u>	<u>74,753</u>	<u>44,212</u>	<u>192,220</u>	<u>31,881</u>	<u>137,762</u>	<u>780,036</u>
Acquisition cost		965,201	102,519	111,048	192,220	48,201	196,574	1,615,763
Accumulated amortization		(645,256)	(27,766)	(66,836)	-	(16,320)	(50,683)	(806,861)
Accumulated impairment		(20,737)	-	-	-	-	(8,129)	(28,866)

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18. Intangible Assets, Continued

- (2) Changes in intangible assets other than goodwill for the years ended December 31, 2015 and 2014 are as follows, continued:

(In millions of won)

	2014							Total
	Development costs	Networks	Customer relationships	Brands	Know-how	Other intangible assets		
Beginning balance	₩ 350,623	85,005	68,890	192,220	37,907	151,089	885,734	
Acquisitions and other	72,220	-	-	-	-	15,971	88,191	
Disposals	-	-	-	-	-	(5,620)	(5,620)	
Amortization	(68,010)	(5,126)	(12,338)	-	(3,012)	(6,163)	(94,649)	
Impairment loss	(19,678)	-	-	-	-	(2,521)	(22,199)	
Effect of movements in exchange rates	(20)	-	-	-	-	42	22	
Ending balance(*)	₩ 335,135	79,879	56,552	192,220	34,895	152,798	851,479	
Acquisition cost	921,798	102,519	111,048	192,220	48,201	238,870	1,614,656	
Accumulated amortization	(565,926)	(22,640)	(54,496)	-	(13,306)	(80,332)	(736,700)	
Accumulated impairment	(20,737)	-	-	-	-	(5,740)	(26,477)	

(*) The carrying amount of intangible assets with indefinite useful lives is ₩266,550 million and ₩280,414 million as of December 31, 2015 and 2014, respectively.

- (3) For the year ended December 31, 2014, the Group recognized impairment loss in development costs amounting to ₩19,678 million for the suspended development projects. Also the Group recognized impairment losses of memberships and usable and profitable donation assets amounting to ₩2,970 million and 36 million, and ₩2,422 million and 99 million, respectively, for the years ended December 31, 2015 and 2014.
- (4) Research costs amounting to ₩19,716 million and ₩35,271 million, and ordinary development costs amounting to ₩169,699 million and ₩183,448 million are included in selling, general and administrative expenses for the years ended December 31, 2015 and 2014, respectively. Amortization of capitalized development costs of ₩79,288 million and ₩68,010 million are included in the manufacturing cost and selling, general and administrative expenses for the years ended December 31, 2015 and 2014, respectively.

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19. Pledged Assets

(1) Assets pledged as collateral for the Group's borrowings as of December 31, 2015 are summarized as follows:

(In millions of won and in thousands of foreign currency)

Asset	Carrying amount	Collateralized amount	Type of borrowings	Borrowings amount	Lender
Land and buildings			Long-term borrowings		Kookmin Bank
	KRW 80,572	KRW 76,919		KRW 36,463	
Land	KRW 112,753		Long-term borrowings		The Korea Development Bank and Others
Buildings	KRW 87,399				
Machinery and structures	KRW 1,841,589	KRW 1,440,000		KRW 299,360	
Land	KRW 8,563		Long-term borrowings		KEB Hana Bank and Others
Buildings	KRW 3,494				
Machinery and structures	KRW 240,600	KRW 234,000		KRW 195,000	
Land	KRW 13,743		Long-term borrowings		Shinhan Bank
Buildings	KRW 2,442				
Structure	KRW 19,797	KRW 36,000		KRW 20,000	
The Korea Exchange stock	KRW 11,481	KRW 10,000	Secured loans	-	The Korea Securities Finance Corporation
Short-term financial assets	KRW 130,000	KRW 137,170	Short-term borrowings	KRW 124,700	Industrial Bank of Korea and others
	KRW 23,000	KRW 23,100	Short-term borrowings	KRW 21,000	Industrial Bank of Korea
	KRW 27,000	KRW 27,500	Short-term borrowings	KRW 25,000	Industrial Bank of Korea
Inventories and trade receivables	EUR 5,500	EUR 5,500	General purpose loans	EUR 4,500	BNP Paribas Fortis Bank, Belgium
Stocks of MS Dandy Ltd.	USD -	USD 5,645	Secured loans	USD 10,136	National Federation of Fisheries Cooperatives
Stocks of Grande Ltd.	USD -	USD 3,000	Secured loans	USD 3,000	High Investment Hyundai Oilbank
	KRW 2,602,433	KRW 1,984,689		KRW 721,523	
	USD -	USD 8,645		USD 13,136	
	EUR 5,500	EUR 5,500		EUR 4,500	

(2) The Group received payment guarantees from financial institutions covering advance payments on ships as of December 31, 2015. Regarding this, the Group collateralized its ships under construction and construction materials (see note 44).

(3) As of December 31, 2015, the Group collateralized ₩3,184,074 million of held-for-trading investments, ₩240,364 million of borrowed securities and ₩182,597 million of available-for-sale financial assets for borrowing transactions, warranty for derivative instruments and a settlement fund for stock clearing to Korea Exchange and others.

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20. Short-term and Long-term Financial Liabilities

Short-term and long-term financial liabilities as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	2015		2014	
	Current	Non-current	Current	Non-current
Borrowings	₩ 8,347,874	4,055,893	8,907,856	3,932,725
Held for trading liabilities	305,463	210,203	1,611,249	43,581
Financial liability at fair value through profit or loss	91,339	942,507	64,739	1,010,769
Debentures	451,600	3,785,000	1,250,000	2,459,760
Discount on debentures	(543)	(9,490)	(415)	(6,799)
Exchangeable bond	-	259,715	-	-
Discount on exchangeable bond	-	(2,522)	-	-
Exchange right adjustment	-	(35,431)	-	-
Deposit liabilities	296,592	-	285,028	-
Others	10,158	-	11,251	-
	₩ <u>9,502,483</u>	<u>9,205,875</u>	<u>12,129,708</u>	<u>7,440,036</u>

21. Trade and Other Payables

Trade and other payables as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	2015		2014	
	Current	Non-current	Current	Non-current
Trade payables	₩ 2,983,550	-	3,753,892	-
Other accounts payable	1,432,247	16	1,302,121	389
Dividends payable	-	-	933	-
Accrued expense	1,458,533	1	1,305,222	-
Deposits received	-	98,711	-	104,008
	₩ <u>5,874,330</u>	<u>98,728</u>	<u>6,362,168</u>	<u>104,397</u>

22. Other Liabilities

Other liabilities as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	2015		2014	
	Current	Non-current	Current	Non-current
Unearned revenues	₩ 50,940	-	34,405	-
Deferred revenues	-	28,381	-	28,532
Others	3,182	5,014	3,568	5,095
	₩ <u>54,122</u>	<u>33,395</u>	<u>37,973</u>	<u>33,627</u>

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23. Borrowings and Debentures

(1) Short-term borrowings as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

Type of borrowing	Lender	Annual interest rate (%)		2015	2014
General loan	China Construction Bank Corporation and others	2.72~3.49	₩	445,700	320,038
Call money	Kookmin Bank and others	1.55~1.62		60,000	80,000
Commercial paper	Korea Investment & Securities Co., Ltd.	2.36		100,000	1,401,400
Repurchase agreements	Woori Bank and others	1.40~4.20		2,391,204	1,338,807
Invoice Loan	Mizuho Corporate Bank and others	0.92~1.44		142,054	584,843
Import loan	Bank of China and others	0.66~2.45		155,244	133,137
Usance L/C	KEB Hana Bank and others	0.21~1.70		1,345,204	2,319,210
Other borrowings from Korea Exim Bank	Export-Import Bank of Korea	2.53~2.71		347,701	300,580
Pre-shipment credit	Export-Import Bank of Korea	2.65~2.97		1,014,000	600,000
Other borrowings from KSFC	Korea Securities Finance Corporation	1.99		90,000	50,000
Borrowings from margin loans	Korea Securities Finance Corporation	1.99		32,831	13,494
Asset backed short-term bond	Daewoo securities Co., Ltd and others	2.01		10,000	185,700
Loan in foreign currency	Mizuho Corporate Bank and others	LIB(1M)+0.85~TJLP+2.8		397,207	550,123
				6,531,145	7,877,332
Current portion of long-term borrowings				1,816,729	1,030,524
			₩	<u>8,347,874</u>	<u>8,907,856</u>

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23. Borrowings and Debentures, Continued

(2) Long-term borrowings as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

<u>Type of borrowing</u>	<u>Lender</u>	<u>Annual interest rate (%)</u>		<u>2015</u>	<u>2014</u>
General loan	The Korea Development Bank and others	1.46~4.82	₩	1,386,227	650,000
Commercial paper	SK Securities Co., Ltd and others	3.01~3.10		300,000	880,000
General loan in foreign currency	KEB Hana Bank and others	1.61~2.75		1,793,160	876,502
National Housing Fund	Kookmin Bank	2.50		36,463	37,869
Energy rationalization	The Korea Development Bank	1.75		2,302	3,725
Environment improvement fund	The Korea Development Bank	1.98		727	1,398
General fund for equipment	The Korea Development Bank and others	3.34~3.74		594,788	823,633
Business loans (*)	Korea National Oil Corporation	0.75~3.75		12,370	11,602
Pre-shipment credit	Export-Import Bank of Korea and others	2.63~3.60		1,470,000	1,263,000
Loan in foreign currency	Standard Chartered Bank and others	LIB(1M)+0.95~TJLP+2.8		276,585	415,520
				5,872,622	4,963,249
Current portion				(1,816,729)	(1,030,524)
			₩	<u>4,055,893</u>	<u>3,932,725</u>

(*) During 2013, the consortium that included the Group decided to withdraw from its oil development business in the 4 mining areas in Yemen and Kazakhstan mining development business through sale of shares. The maturities of business loans (₩12,370 million and ₩11,602 million as of December 31, 2015 and 2014, respectively) from Korea National Oil Corporation are not readily determinable since the decision on redemptions of business loans are still being deliberated by the supervisory institution.

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23. Borrowings and Debentures, Continued

(3) Debentures as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

Description	Maturity	Annual interest rate (%)	2015	2014
113 th debenture	2015-02-17	-	₩ -	500,000
114 th -1 debenture	2015-07-24	-	-	300,000
114 th -2 debenture	2017-07-24	3.35	400,000	400,000
116 th -1 debenture	2017-02-26	3.14	200,000	200,000
116 th -2 debenture	2019-02-26	3.45	300,000	300,000
117 th -1 debenture	2018-03-03	2.45	180,000	-
117 th -2 debenture	2020-03-03	2.65	50,000	-
117 th -3 debenture	2022-03-03	3.05	70,000	-
118 th -1 debenture	2017-07-23	2.33	80,000	-
118 th -2 debenture	2018-07-23	2.66	235,000	-
118 th -3 debenture	2020-07-23	3.26	90,000	-
Foreign currency bond	2016-06-10	1.39	351,600	329,760
105 th debenture	2015-06-28	-	-	200,000
108 th debenture	2015-01-25	-	-	150,000
109 th debenture	2015-03-27	-	-	100,000
110 th debenture	2017-07-20	3.52	300,000	300,000
111 th -1 debenture	2016-10-23	3.24	100,000	100,000
111 th -2 debenture	2019-10-23	3.52	100,000	100,000
112 th -1 debenture	2018-01-27	3.35	150,000	150,000
112 th -2 debenture	2019-01-27	3.59	50,000	50,000
113 th debenture	2018-06-25	3.01	100,000	100,000
114 th -1 debenture	2017-11-21	2.36	80,000	80,000
114 th -2 debenture	2019-11-21	2.59	160,000	160,000
114 th -3 debenture	2021-11-21	2.94	60,000	60,000
115 th -1 debenture	2018-03-27	1.98	70,000	-
115 th -2 debenture	2020-03-27	2.20	190,000	-
115 th -3 debenture	2022-03-27	2.53	140,000	-
2 nd -1 debenture	2017-04-22	2.50	70,000	-
2 nd -2 debenture	2018-04-22	2.75	230,000	-
8 th debenture	2019-06-15	3.16	150,000	-
9 th -1 debenture	2017-06-25	2.61	100,000	-
9 th -2 debenture	2018-06-25	2.92	100,000	-
1 st -1 subordinated bonds	2018-03-11	4.88	60,000	60,000
1 st -2 subordinated bonds	2019-09-11	5.18	40,000	40,000
2 nd subordinated bonds	2019-10-31	5.30	30,000	30,000
			4,236,600	3,709,760
Discount on debentures			(10,033)	(7,214)
Current portion and discounts on bond			(451,600)	(1,250,000)
Discount on current portion			543	415
			₩ 3,775,510	2,452,961

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23. Borrowings and Debentures, Continued

(4) Exchangeable bond

(i) Details of the exchangeable bond As of December 31, 2015 are as follows:

(In millions of won)

Description	Maturity	Annual interest rate (%)	2015	Guarantee
1 st Exchangeable bond	2020.06.29	0.00	₩ 259,715	Secured debenture
Discount on exchangeable bond			(2,522)	
Exchange rights adjustment			(35,431)	
			₩ <u>221,762</u>	

(ii) Terms and conditions of the exchangeable bond issued as of December 31, 2015 are as follows:

	Description
Type of debenture.....	1st secured foreign currency denominated exchangeable bond in foreign public offering
Total face value of debenture (USD).....	221,600,000
The name of overseas listing market.....	Singapore Stock Exchange
Interest rate of debenture	
Par interest rate (%).....	0.00
Interest rate of maturity (%).....	0.00
Maturity of debenture.....	2020.06.29
Interest payment method.....	No interest payments
Principal redemption method.....	Redemption at maturity: Lump sum redemption of principal and interest at maturity only if reasons for early redemption don't occur and exchange rights aren't exercised until maturity Early redemption: There are Company's early redemption right (Call option) and investors' early redemption right (Put option)
Issue method of debenture.....	Private Placement
Details of exchange	
Exchange rate (%).....	100.00
Exchange price (in USD per share).....	9.4667
Determination method of exchange price...	The amount is determined by complying with 'Regulations on securities issuance and disclosure article 5-22 (decision of conversion price of conversion bonds)' and adding the exchange premium of 37.50% to the closing price of the Korea Exchange listed stocks at the time of exchange price is fixed
Exchange object.....	Common stocks of Hyundai Merchant Marine Co., Ltd.
Exercise period	
Start date.....	2015.08.10
End date.....	2020.06.18
Adjustments to exchange price.....	The amount is adjusted according to the terms and conditions of the debentures, in the event of a dilution reason such as stock split, share consolidation, change of par value, paid-in capital increase, issuance of additional stocks, company reorganization procedure, stock dividends and others
Guarantee institutions.....	The Korea Development Bank
Investors' early redemption right (Put Option).....	The early redemption rights can be exercised when following events occur - After three years from the date of payment (2018.6.29) - If change in control of the company has occurred - If stocks which the company issued are delisted or the trading is halted for more than 30 consecutive trading days

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23. Borrowings and Debentures, Continued

(4) Exchangeable bond, continued

(ii) Terms and conditions of the exchangeable bond issued as of December 31, 2015 are as follows, continued:

	Description
Company's early redemption right (Call Option).....	The early redemption is possible when following events occur - From 3 years after the date of payment (2018.6.29) to 30 business days prior to maturity, 20 trading days closing price of 30 trading days exceeds 130% of the exchange price - If the balance of outstanding debentures is less than 10% of the total issued amount (Clean Up Call) - If the additional tax burden by amendments of the relevant laws and others has occurred
Share lending agreement.....	Hyundai Samho Heavy Industries Co., Ltd. has procured a lender under a share lending agreement to transfer to the initial purchase a certain number of the shares, subject to the terms of such share lending agreement. - Purpose: Derivative transactions - The number of stocks: 10,479,174 (it can lend up to 50% of the number of lending stocks per borrowers) - Lender: Hyundai Samho Heavy Industries Co., Ltd. - Borrowers: Merrill Lynch International, The Hong Kong and Shanghai Banking Corporation Limited - Loan conditions: Until 5 years after issuance of exchangeable bond or the date of all redemption or all exchange of exchangeable bond, borrowers can borrow the number of stocks that they want within the limit of lending stocks (designated transaction method through Daewoo Securities) - Redemption method: The same type of stocks - Connectivity of exchangeable bond issuance: Loan stocks are common stocks of Hyundai Merchant Marine Co., Ltd. - Loan charges: Annual 1.0%

(iii) Characteristics of the exchange rights, investors and the Company's early redemption rights given to the above exchangeable bonds are not closely related to economic specifics and risks of the host contract, therefore they are classified as embedded derivative instruments separately from the host contract. Thus, the Company recorded a financial liability at fair value through profit or loss of ₩ 36,124 million, which is the value of the exchange rights and others as of December 31, 2015. The Company measures the fair value at each period ending and records the gain/loss on valuation in profit or loss.

(5) Aggregate maturities of the Group's borrowings and debentures as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

Periods	2015			
	Borrowings	Debentures	Exchangeable bond	Total
2016.01.01~2016.12.31	₩ 8,347,874	451,600	-	8,799,474
2017.01.01~2020.12.31	3,843,154	3,515,000	259,715	7,617,869
2021.01.01 and thereafter	212,739	270,000	-	482,739
	<u>₩ 12,403,767</u>	<u>4,236,600</u>	<u>259,715</u>	<u>16,900,082</u>

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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23. Borrowings and Debentures, Continued

- (5) Aggregate maturities of the Group's borrowings and debentures as of December 31, 2015 and 2014 are summarized as follows, continued:

(In millions of won)

Periods	2014		
	Borrowings	Debentures	Total
2015.01.01~2015.12.31	₩ 8,907,856	1,250,000	10,157,856
2016.01.01~2019.12.31	3,759,814	2,399,760	6,159,574
2020.01.01 and thereafter	172,911	60,000	232,911
	₩ 12,840,581	3,709,760	16,550,341

- (6) Issues and repayments for the year ended December 31, 2015 are as follows:

(In millions of won)

	2015			
	Borrowings	Debentures	Exchangeable bond	Total
Beginning balance	₩ 12,840,581	3,702,546	-	16,543,127
Borrowing	23,180,166	1,747,837	206,872	25,134,875
Repayment	(23,797,767)	(1,250,000)	-	(25,047,767)
Effect of movements in exchange rates	180,787	21,816	11,045	213,648
Amortization of discounts on debentures	-	4,368	272	4,640
Amortization of exchange rights adjustment	-	-	3,573	3,573
Ending balance	₩ 12,403,767	4,226,567	221,762	16,852,096

24. Employee Benefits

- (1) Recognized liabilities for defined benefit obligations as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
Present value of defined benefit obligations	₩ 1,979,320	1,915,147
Fair value of plan assets(*)	(1,433,078)	(1,363,914)
	₩ 546,242	551,233

- (*) Certain subsidiaries' (including HI Investment Securities, Co., Ltd. and others) plan assets exceed the present value of defined benefit obligations in the amount of ₩161 and ₩1,651 million as of December 31, 2015 and 2014. Such amounts were recognized as plan assets (in other non-current assets). The fair value of plan assets included such amounts of ₩1,433,239 and ₩1,365,565 million as of December 31, 2015 and 2014.

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24. Employee Benefits, Continued

(2) Plan assets as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Retirement pension	₩ 1,423,584	1,352,929
Transfer to National Pension Fund	9,655	12,636
	<u>₩ 1,433,239</u>	<u>1,365,565</u>

(3) Expenses recognized in profit or loss for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Current service costs	₩ 237,640	247,935
Past service costs	100	126,937
Gain or loss on adjustment	(821)	-
Interest on obligations	52,806	56,037
Expected return on plan assets	(37,680)	(50,591)
Contribution	525	847
	<u>₩ 252,570</u>	<u>381,165</u>

The Group introduced a voluntary retirement in the year ended December 31, 2015. ₩208,131 million was recorded as additional retirement benefits in selling and administrative expenses.

(4) Changes in the defined benefit obligations for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 1,915,147	1,483,146
Current service costs	237,640	247,935
Past service costs	100	126,937
Gain or loss on adjustment	(821)	-
Interest on obligations	52,806	56,037
Benefits paid	(242,963)	(185,810)
Increase or decrease due to reduced	(107,121)	-
Transfers from related parties	13,111	1,168
Effect of movements in exchange rates	(120)	(705)
Actuarial loss (gain) in other comprehensive income:		
Demographic assumption	(23)	9,801
Financial assumption	56,938	136,877
Experience adjustment	56,675	39,761
Effects of changes in scope of consolidation	(2,049)	-
Ending balance	<u>₩ 1,979,320</u>	<u>1,915,147</u>

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24. Employee Benefits, Continued

(5) Changes in the fair value of plan assets for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		<u>2015</u>	<u>2014</u>
Beginning balance	₩	1,365,565	1,337,212
Benefits paid		(187,911)	(157,063)
Increase or decrease due to reduced Contributions paid into the plan		(107,121)	-
Expected return on plan assets		338,816	150,563
Actuarial gain (loss) in other comprehensive income		37,680	50,591
Effects of changes in scope of consolidation		(11,824)	(15,738)
Ending balance	₩	<u>1,433,239</u>	<u>1,365,565</u>

The Group reviews the level of the fund each year, and take the policy to preserve fund in the event of a loss to the fund. The Group expects to pay ₩221,717 million in contributions to its defined benefit plans in next year.

(6) Expected payment date of the defined benefit obligations as of December 31, 2015 is as follows:

(In millions of won)		<u>Within 1 year</u>	<u>1 ~ 5years</u>	<u>5 ~ 10years</u>	<u>More than 10 years</u>	<u>Total</u>
Expected payment	₩	50,209	728,793	883,276	5,585,378	7,247,656

(7) Principal actuarial assumptions as of December 31, 2015 and 2014 are as follows:

(In percentage)		<u>2015</u>	<u>2014</u>
Discount rate		2.08~2.92	3.08~3.41
Future salary growth		2.00~4.74	2.53~4.42
Future mortality (Males, at age 45)		0.25~0.26	0.25~0.26

(8) Weighted average durations of defined benefit obligations as of December 31, 2015 and 2014 are as follows:

(in years)

	<u>2015</u>	<u>2014</u>
Weighted average durations	10.47	10.00

(9) Reasonably possible changes as of December 31, 2015 and 2014 to the each relevant actuarial assumption would have affected the defined benefit obligation by the amounts shown below.

(In millions of won)

		<u>2015</u>		<u>2014</u>	
		<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	₩	(169,432)	201,567	(155,502)	183,212
Future salary growth (1% movement)		170,908	(147,208)	154,044	(133,931)

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25. Provisions

(1) Short-term Provisions

(In millions of won)

	2015			
	Beginning balance	Additions	Reversals	Ending balance
Greenhouse gas emission liability	-	4,105	-	4,105

(2) Long-term Provisions

Changes in long-term provisions for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015				2014			
	Provision for construction warranty	Provision for product warranty	Other provision	Total	Provision for construction warranty	Provision for product warranty	Other provision	Total
Beginning balance	₩ 296,950	175,630	29,792	502,372	357,976	130,805	64,136	552,917
Additions	211,882	187,249	32,959	432,090	63,891	168,206	16,043	248,140
Reversals	(33,291)	(35,439)	(2,125)	(70,855)	(42,718)	(38,308)	(12,940)	(93,966)
Utilization	(55,037)	(82,927)	(10,627)	(148,591)	(82,267)	(85,197)	(37,466)	(204,930)
Effect of movements								
in exchange rates	156	669	(38)	787	68	124	19	211
Ending balance	₩ 420,660	245,182	49,961	715,803	296,950	175,630	29,792	502,372

26. Derivative Financial Instruments

The Group has entered into derivative instrument contracts with various banks, including KEB Hana Bank, to hedge the risk related to changes in foreign exchange rates, crude oil prices and others. Derivatives are measured at fair value by using the forward exchange rate presented by contract counterparty and others.

(1) The description of derivative instrument and hedge accounting is as follows:

Hedge accounting	Type	Description
Fair value hedge	Foreign currency forward	(i) Hedges the risk of changes in the fair value of firm commitments (ii) Hedges the risk of changes in foreign currency exchange rates for payables in foreign currency
	Foreign currency futures	Hedges the risk of changes in foreign currency exchange rates for offshore funds
Cash flow hedge	Foreign currency forward	Hedges the variability in cash flows attributable to foreign currency exposure in respect of forecasted sales and purchases
	Interest rate swap	Hedges cash flow risk on interest rate fluctuation
	Product forward	Hedges cash flow risk on refinery margin fluctuation

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26. Derivative Financial Instruments, Continued

(2) As of December 31, 2015, details of the derivatives entered into by the Group are as follows:

(In millions of won and in thousands of foreign currency)

Description	Type	Currency		Contract amount	Number of contracts	Weighted average exchange rate	Average maturities	
		Sell	Buy					
Fair value hedge	Foreign currency forward	EUR	KRW	₩ 1,526	1	1,490.09	2016-02-01	
		USD	KRW	13,497,943	3,235	1,113.63	2016-11-13	
		USD	CNY	33,701	18	6.47	2016-10-30	
Cash flow hedge	Foreign currency futures	USD	KRW	5,000	500	1,173.20	2016-01-15	
	Foreign currency forward	EUR	KRW	41,133	7	1,290.13	2016-04-06	
		KRW	EUR	6,200	10	1,411.04	2016-09-27	
	Interest rate swap	KRW	USD	122,219	27	1,097.48	2016-04-17	
		KRW	JPY	2,099	2	0.10	2016-02-09	
		USD	CHF	843	2	1.13	2016-03-18	
		USD	EUR	102,769	44	0.85	2016-06-20	
		USD	GBP	124	1	0.61	2016-02-19	
		USD	KRW	674,570	234	1,141.70	2016-05-27	
		KRW	KRW	50,000	1	-	2017-11-21	
	Product forward	USD	USD	268,158	93	-	2016-04-02	
	For trading	Foreign currency forward	USD	KRW	220,249	13	1,162.16	2016-01-27
			KRW	USD	57,978	19	1,168.92	2016-01-18
Foreign currency futures	USD	KRW	4,250	425	1,173.20	2016-03-21		
	KRW	USD	1,901	162	1,173.20	2016-03-21		
Interest rate swap	KRW	KRW	140,000	9	-	2016-08-31		
Interest rate futures	KRW	KRW	2,076,767	18,183	-	2016-03-15		
Index futures	KRW	KRW	74,283	3,780	-	2016-01-14		
	USD	USD	1,089	104	-	2016-01-28		
	HKD	HKD	2,916	6	-	2016-03-09		
Index option	KRW	KRW	30	44	-	2016-01-14		
	HKD	HKD	1,393	164	-	2016-08-05		
Stock warrants	KRW	KRW	1,109	3	-	2016-11-28		
Commodity futures	USD	USD	599	6	-	2016-01-29		
Product forward	USD	USD	22,688	97	-	2016-04-06		
Exchange rights to exchangeable bond	KRW	KRW	259,715	1	-	2020-06-18		
Others	KRW	KRW	1,852,497	184	-	2017-10-13		
	USD	USD	70,049	7	-	2018-04-29		

(*) Terms of settlement: Netting the settlement or collecting total

(**) The contract amount is denominated in the selling currency

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26. Derivative Financial Instruments, Continued

(3) Book value related to derivatives as of December 31, 2015 is as follows:

(In millions of won)

Description	Category	Financial assets or liabilities at fair value through												
		Derivatives				profit or loss				Firm commitment				
		Assets		Liabilities		Assets		Liabilities		Assets		Liabilities		
		Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	
Fair value hedge	Foreign currency forward	₩	5,218	9,032	516,021	299,583	-	-	-	-	361,397	294,766	9,148	9,032
Cash flow hedge	Foreign currency forward		9,865	343	30,045	1,329	-	-	-	-	-	-	-	-
	Interest rate swap		-	-	-	2,576	-	-	-	-	-	-	-	-
	Product forward		26,673	-	25,790	-	-	-	-	-	-	-	-	-
For trading	Foreign currency forward		-	-	-	-	730	-	2,621	-	-	-	-	-
	Interest rate swap		-	-	-	-	102	-	560	186	-	-	-	-
	Index futures		-	-	-	-	11	-	210	-	-	-	-	-
	Index option		-	-	-	-	-	-	30	-	-	-	-	-
	Stock warrants		-	-	-	-	-	435	-	-	-	-	-	-
	Commodity futures		-	-	-	-	21	-	-	-	-	-	-	-
	Product forward		-	-	-	-	477	-	3,337	-	-	-	-	-
	Exchange rights to exchangeable bond		-	-	-	-	-	-	-	36,124	-	-	-	-
	Others		-	-	-	-	133	31,314	499	173,893	-	-	-	-
		₩	<u>41,756</u>	<u>9,375</u>	<u>571,856</u>	<u>303,488</u>	<u>1,474</u>	<u>31,749</u>	<u>7,257</u>	<u>210,203</u>	<u>361,397</u>	<u>294,766</u>	<u>9,148</u>	<u>9,032</u>

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26. Derivative Financial Instruments, Continued

(4) Gain and loss on valuation and transaction of derivatives for the year ended December 31, 2015 are as follows:

(In millions of won)

Description	Category	Increase to sales	Increase to cost of sales	Increase to finance income	Increase to finance costs	Increase to other non-operating income	Increase to other non-operating expenses	Accumulated other comprehensive income (loss)
Fair value hedge	Foreign currency forward	₩ (337,123)	-	116,154	1,044,864	933,207	63,717	-
	Foreign currency futures	-	183	-	-	-	-	-
Cash flow hedge	Foreign currency forward	(51,369)	75,646	-	-	-	-	56,012
	Interest rate swap	-	-	-	755	-	-	1,663
	Product forward	-	-	-	-	-	-	884
For trading	Foreign currency forward	1	2,391	56,928	52,400	-	-	-
	Foreign currency futures	5,601	6,140	-	-	-	-	-
	Interest rate swap	970	1,520	16,160	7,009	-	-	-
	Interest rate futures	54,639	43,943	-	-	-	-	-
	Index futures	38,082	36,313	-	-	-	-	-
	Index option	21,706	17,416	-	-	-	-	-
	Stock warrants	1,906	83	-	-	-	-	-
	Commodity futures	36	43	-	-	-	-	-
	Product forward	-	-	3,570	4,309	-	-	-
	Exchange rights to exchangeable bond	-	-	1,431	-	-	-	-
	Others	84,948	185,713	-	-	-	-	-
		₩ (180,603)	369,391	194,243	1,109,337	933,207	63,717	58,559

As of December 31, 2015, the Group applies cash flow hedge accounting, for which the Group accounted for the effective portion of the hedge amounting to ₩43,763 million, after netting off deferred tax effect of ₩14,136 million and non-controlling interest portion of ₩660 million, as gain (loss) on valuation of derivatives in accumulated other comprehensive income (loss).

The expected period of exposure to cash flow risk, where cash flow hedge accounting is applied, is approximately 23 months.

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27. Capital and Capital Surplus

- (1) The Group is authorized to issue 160,000,000 shares of capital stock (par value ₩5,000), and as of December 31, 2015 and 2014, the number of issued common shares is 76,000,000.

There have been no changes in the capital stock for the years ended December 31, 2015 and 2014.

- (2) Capital surplus

Capital surplus is comprised of paid-in capital in excess of par value, capital surplus related to acquisition or disposal of interests in subsidiaries and investments in associates, and other capital surplus of the Company. Other capital surplus of the Company is derived from various sources including gains arising from previous business combination, and gains on disposal of treasury shares and others. Capital surplus is only available for the reduction of accumulated deficit or transfer to capital stock.

- (i) Capital surplus as of December 31, 2015 and 2014 is summarized as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Paid-in-capital in excess of par value	₩ 843,324	843,324
Gains on disposal of treasury shares	217,750	204,339
From business combination	21,830	21,830
Other capital surplus	41,992	39,816
	<u>₩ 1,124,896</u>	<u>1,109,309</u>

- (ii) The changes in capital surplus for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 1,109,309	1,109,309
Gain on disposal of treasury shares	13,411	-
Others	2,176	-
Ending balance	<u>₩ 1,124,896</u>	<u>1,109,309</u>

- (3) Dividends paid by the Company for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
₩ - per qualifying ordinary share (2014: ₩2,000)	₩ -	122,577

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28. Hybrid Bonds

(1) Hybrid bond issued by the Company

(i) Hybrid bonds issued by the Company and classified as capital as of December 31, 2015 and 2014 are as follows:

(In millions of won)

Description	Issue	Maturity	Annual interest rate (%)		2015	2014
1 st -1 Hybrid bond	2014-12-15	2044-12-15	4.90	₩	360,000	360,000
1 st -2 Hybrid bond	2014-12-15	2044-12-15	4.80		70,000	70,000
					430,000	430,000
Issuance costs					(1,411)	(1,411)
				₩	428,589	428,589

(ii) Terms and conditions of the hybrid bonds issued by the Company for the year ended December 31, 2015 are as follows:

(In millions of won)

	1 st -1 Hybrid bond	1 st -2 Hybrid bond
Amount Issued	KRW 360,000	KRW 70,000
Maturity	30 years (At maturity, it can be extended in accordance with the Group's decision)	
Interest Rate	Issue date ~ 2019-12-15 : Fixed rate 4.90% Re-calculated and applied every 5 years, 5-year treasury bond yield + annual 2.55% + annual 2.00% (Step-up clauses)	Issue date ~ 2019-12-15 : Fixed rate 4.80% Re-calculated and applied every 5 years, 5-year treasury bond yield + annual 2.45% + annual 2.00% (Step-up clauses)
Interest payment condition	3 months deferred payment, selective payment postpone is possible	
Other	Depending on the Company's choice, the Company can redeem at the date of 5 th anniversary after issuance and every interest payment thereafter.	

The Company has an unconditional option to extend the maturity of hybrid bonds at maturity. Also, payment of interest on the bonds can be postponed at the discretion of the Company. If the payment of interest is postponed, the Company cannot pay any dividend on common stock until the deferred interest is paid in full. The Company classifies hybrid bonds as equity because the Company holds unconditional rights to avoid the contractual obligation to deliver cash or other financial assets to the holder. In case of liquidation, the hybrid bonds are subordinated bonds which have priority over common stocks.

(2) Hybrid bond issued by a subsidiary

(i) Hybrid bonds issued by Hyundai Oilbank Co., Ltd, one of subsidiaries, and classified as capital as of December 31, 2015 are as follows:

(In millions of won)

Description	Issue	Maturity	Annual interest rate (%)		2015
1 st -1 Hybrid bond	2015-12-11	2045-12-11	4.80	₩	160,000
1 st -2 Hybrid bond	2015-12-11	2045-12-11	4.75		65,000
					225,000
Issuance costs					(727)
				₩	224,273

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28. Hybrid Bonds, Continued

(2) Hybrid bond issued by a subsidiary, continued

(ii) Terms and conditions of the hybrid bonds issued by Hyundai Oilbank Co., Ltd, one of subsidiaries, for the year ended December 31, 2015 are as follows:

(In millions of won)

	1 st -1 Hybrid bond	1 st -2 Hybrid bond
Amount Issued	KRW 160,000	KRW 65,000
Maturity	30 years (At maturity, it can be extended in accordance with the Group's decision)	
Interest Rate	Issue date ~ 2020-12-11 : Fixed rate 4.80% Re-calculated and applied every 5 years, 5-year treasury bond yield + annual 2.87% + annual 2.00% (Step-up clauses)	Issue date ~ 2020-12-11 : Fixed rate 4.75% Re-calculated and applied every 5 years, 5-year treasury bond yield + annual 2.82% + annual 2.00% (Step-up clauses)
Interest payment condition	3 months deferred payment, selective payment postpone is possible	
Other	Depending on the Company's choice, the Company can redeem at the date of 5 th anniversary after issuance and every interest payment thereafter.	

The Company has an unconditional option to extend the maturity of hybrid bonds at maturity. Also, payment of interest on the bonds can be postponed at the discretion of the Company. If the payment of interest is postponed, the Company cannot pay any dividend on common stock until the deferred interest is paid in full. The Company classifies hybrid bonds as equity because the Company holds unconditional rights to avoid the contractual obligation to deliver cash or other financial assets to the holder. In case of liquidation, the hybrid bonds are subordinated bonds which have priority over common stocks.

29. Treasury Stock

(1) Treasury stock of the Company as of December 31, 2015 and 2014 is summarized as follows:

(In millions of won, except share data)

	2015			2014		
	Number of shares	Acquisition cost	Fair value	Number of shares	Acquisition cost	Fair value
Treasury stock	10,157,477 ₩	966,933	891,826	14,711,560 ₩	1,400,455	1,691,829

Due to the wage negotiation agreements, the Group has distributed the number of 3,110,103 treasury stocks as wages to the Company's employees, and sold the number of 1,443,980 treasury stocks for the purposes of enhancing financial structure for the year ended December 31, 2015. The Group accounted for the gain on disposal of treasury shares amounting to ₩ 13,411 million, after netting off deferred tax effect ₩ 4,283 million, as capital surplus.

(2) As of December 31, 2015, 6,063,000 of the Company's treasury stocks valued at ₩236,721 million at acquisition cost and ₩532,331 million at fair value are owned by Hyundai Mipo Dockyard Co., Ltd., a subsidiary of the Group. The Group recorded its portion as treasury stock in capital adjustments, in the amount of ₩98,049 million.

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30. Accumulated Other Comprehensive Income

(1) Accumulated other comprehensive income as of December 31, 2015 and 2014 is summarized as follows:

(In millions of won)

		<u>2015</u>	<u>2014</u>
Gain on valuation of available-for-sale financial assets	₩	372,968	780,350
Loss on valuation of derivatives		(17,937)	(61,700)
Exchange differences on translating foreign operations		(54,686)	(45,980)
Change in equity of equity method investments		25,066	73,822
	₩	<u>325,411</u>	<u>746,492</u>

(2) Other comprehensive income (loss) for the years ended December 31, 2015 and 2014 is as follows:

(In millions of won)

	<u>2015</u>			<u>2014</u>		
	<u>Other comprehensive income</u>	<u>Owners of the Company</u>	<u>Non- controlling interests</u>	<u>Other comprehensive income</u>	<u>Owners of the Company</u>	<u>Non- controlling interests</u>
Gain and loss on valuation of available for-sale financial assets, net of tax	₩ (433,382)	(407,382)	(26,000)	(495,770)	(484,097)	(11,673)
Gain and loss on valuation of derivatives, net of tax	44,423	43,763	660	(26,889)	(26,989)	100
Exchange differences on translating foreign operations, net of tax	(6,810)	(8,706)	1,896	(35,333)	(37,678)	2,345
Change in equity of equity method investments, net of tax	(49,097)	(48,756)	(341)	55,725	55,283	442
Retained Earnings of equity method investments, net of tax	(251)	(249)	(2)	8,391	8,266	125
Defined benefit plan actuarial losses, net of tax	(91,745)	(82,697)	(9,048)	(149,579)	(142,253)	(7,326)
	₩ <u>(536,862)</u>	<u>(504,027)</u>	<u>(32,835)</u>	<u>(643,455)</u>	<u>(627,468)</u>	<u>(15,987)</u>

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31. Retained Earnings

(1) Retained earnings as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Legal reserves:		
Legal appropriated retained earnings(*1)	₩ 190,000	190,000
Reserve for corporate development(*2)	30,000	30,000
Asset revaluation surplus	1,800,414	1,800,414
	<u>2,020,414</u>	<u>2,020,414</u>
Voluntary reserves(*3):		
Reserve for business rationalization	87,277	87,277
Reserve for facilities	78,270	78,270
Reserve for research and human development	456,667	626,667
Others	10,371,831	12,068,839
	<u>10,994,045</u>	<u>12,861,053</u>
Unappropriated retained earnings	(195,683)	(609,541)
	<u>₩ 12,818,776</u>	<u>14,271,926</u>

(*1) The Korean Commercial Code requires the Company to appropriate as a legal reserve an amount equal to at least 10% of annual cash dividends for each accounting period until the reserve equals 50% of capital. This reserve is not available for the payment of cash dividends but may be transferred to capital stock or used to offset accumulated deficit, if any, through a resolution of stockholders.

(*2) Only available for the reduction of accumulated deficit or transfer to capital stock in accordance with related laws.

(*3) Pursuant to the Tax Exemption and Reduction Control Law, the Company is allowed to make reserves for research and human development, facilities and others, which are appropriated in accordance with related laws.

(2) Changes in retained earnings for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 14,271,926	16,293,099
Loss for the year	(1,363,223)	(2,206,065)
Less: non-controlling interests	13,312	436,851
Retained earnings of equity method	(249)	8,266
Actuarial losses	(82,697)	(142,253)
Dividends	-	(117,264)
Hybrid bonds interest	(20,293)	(708)
Ending balance	<u>₩ 12,818,776</u>	<u>14,271,926</u>

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32. Acquisitions of Subsidiary and Non-controlling Interests

- (1) There were no business combination transactions for the years ended December 31, 2015 and 2014.
- (2) Details of changes in the Group's interests in subsidiaries which did not result in a change in control during the year ended December 31, 2015 are as follows:

- (i) Increase in ownership

(In millions of won)

Company	Ownership before transaction (%)	Ownership After Transaction (%)	Changes in equity grounds	Original cost and others	Increase in non-controlling interests	Increase (decrease) in controlling interest
Hyundai Finance Corporation	67.49%	72.13%	Additional acquisition	4,744	(6,739)	1,995
Hyundai Venture Investment Corporation	68.38%	70.05%	Additional acquisition	996	(1,177)	181
HI Investment & Securities Co., Ltd	83.24%	85.32%	Disproportionate paid-in capital increase	99,888	2,842	97,046
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	97.09%	98.37%	Disproportionate paid-in capital increase	83,298	1,374	81,924

- (ii) There is no decrease in ownership

- (3) Gain (loss) upon loss of control

(In millions of won)

	Gain (loss) on loss of control(*)	Gain (loss) on measurement of remaining investments at fair value upon disposal
Hyundai Energy & Resources Co., Ltd.	₩ (941)	-
Hi Himsen Private Funds Investment Trust 1	(665)	-
Hyundai Heavy Industries Brasil - Real Estate Developments	-	-

(*) Gain or loss on disposal upon loss of control is presented in other non-operating income or expenses.

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33. Outstanding Contracts

(1) Sales for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		<u>2015</u>	<u>2014</u>
Construction contracts	₩	24,904,122	23,156,471
Goods sold		19,946,946	28,397,268
Services		341,258	286,168
Interest income		170,421	192,908
Dividend income		6,732	5,090
Commission income		208,988	165,467
Gain on valuation of financial instruments		256,313	91,405
Gain on disposal of financial instruments		378,366	276,286
Other operating income		18,568	11,341
	₩	<u>46,231,714</u>	<u>52,582,404</u>

(2) Changes in outstanding contracts and other sales for the year ended December 31, 2015 are as follows:

(In millions of won)

		<u>Shipbuilding</u>	<u>Offshore, industrial plant and engineering</u>	<u>Others</u>	<u>Total</u>
Beginning balance(*)	₩	26,785,663	17,606,141	4,411,718	48,803,522
Increase during the period		14,856,369	3,328,786	19,578,068	37,763,223
Recognized as revenue		<u>(16,672,606)</u>	<u>(8,652,342)</u>	<u>(20,906,766)</u>	<u>(46,231,714)</u>
Ending balance	₩	<u>24,969,426</u>	<u>12,282,585</u>	<u>3,083,020</u>	<u>40,335,031</u>

(*) The beginning balance includes the impact from changes in the exchange rate.

As of December 31, 2015, the Group has provided a certain amount of financial institution guarantee deposits or letters of guarantee from various financial institutions to the customers, in connection with construction contracts.

(3) Accumulated revenue and cost of construction and others connected with construction in progress as of December 31, 2015 are as follows:

(In millions of won)

		<u>Accumulated revenue of construction</u>	<u>Accumulated cost of construction</u>	<u>Accumulated profit and loss of construction</u>	<u>Billed receivables on construction contracts</u>	<u>Unbilled receivables on construction contracts</u>	<u>Due to customers for contract work</u>
Shipbuilding	₩	12,061,456	12,411,743	(350,287)	346,321	5,745,942	3,886,807
Offshore, Industrial Plant and Engineering		23,899,318	25,817,514	(1,918,196)	806,515	810,706	2,507,240
Others		181,250	209,453	(28,203)	-	43,299	-
	₩	<u>36,142,024</u>	<u>38,438,710</u>	<u>(2,296,686)</u>	<u>1,152,836</u>	<u>6,599,947</u>	<u>6,394,047</u>

Among the receivables on construction contracts, the amount of retentions according to the contract terms is ₩398,047 million.

Heavy-Tail payment plan is a major collection terms in the Shipbuilding segment, and billing in Offshore, Industrial Plant and Engineering mainly based on Progress and Milestone payment plan. Therefore, billed receivables on construction contracts and due from customers for contract work might be changed according to the progress of construction.

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33. Outstanding Contracts, Continued

(4) The effect of changes in total contract cost estimation

(i) Effect on each segment

For the year ended December 31, 2015, due to the factors causing the change in contract costs, the estimated total contract costs for contracts in progress have changed. Details of change in profits or loss for the current year and the future period, the impact on due from customers for contract work and due to customers for contract work are as follows:

<i>(In millions of won)</i>		changes in the total estimated contract cost	Effect on profit or loss for the current year(*)	Effect on profit or loss for the future period	Changes in due from customers for contract work	Changes in due to customers for contract work
Shipbuilding	₩	463,271	(157,213)	339,892	250,755	(10,016)
Offshore, Industrial Plant and Engineering		3,789,657	(1,324,958)	(155,080)	602,483	43,466
	₩	<u>4,252,928</u>	<u>(1,482,171)</u>	<u>184,812</u>	<u>853,238</u>	<u>33,450</u>

(*) Changes in entire contract revenue (including foreign currency fluctuation) are reflected, because it is unable to distinguish total contract revenue changed directly by changes in total contract cost.

Effect on profit or loss for the current year and future period is calculated based on the total contract cost and total contract revenue estimated on the basis of situations generated in current year, and these estimations could be changed by variation of situations in the future.

(ii) Changes in the total contract cost estimation

The amount of due from customers for contract work and due to customers for contract work is affected by the rate of progress which is determined accumulated cost incurred divided by estimated total contract cost. Estimated total contract cost is calculated based on expectation of the cost of materials, labour cost and construction period, and has a variance risk related to exchange rate fluctuation, changes of steel prices and changes in production hours.

The Group has entered into foreign currency forward contract to hedge the risk related to exchange rate fluctuation, and hedged the risk related to changes of steel price by contracting steel purchase agreement by period.

The risk and uncertainty related to production hours has been managed by exclusive charge department for managing production hours, and the effect on profit or loss, due from customers for contract work and Due to customers for contract work of current year and future periods in case production hour changes 10% is as follows:

<i>(In millions of won)</i>		Effect on profit or loss for the current year		Effect on profit or loss for the future period		Changes in due from customers for contract work		Changes in due to customers for contract work	
		Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
Shipbuilding	₩	(103,359)	84,797	(343,075)	360,576	(56,409)	55,880	47,839	(29,573)
Offshore, Industrial Plant and Engineering	₩	(257,348)	258,918	(7,708)	6,141	(13,743)	17,387	61,418	(17,543)

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34. Operating Segments

The Group has 9 reportable segments described below, which are its strategic business units

- (i) Shipbuilding: Manufacturing and sale of VLCCs, containerships, P/C ships, LNG carriers, and warships.
- (ii) Offshore, Industrial Plant and Engineering: Manufacturing and installation of offshore facilities, floating units, co-generating power plants, and processing equipment.
- (iii) Engine and Machinery: Manufacturing and sale of engines for ships, diesel power plants, industrial and marine pumps, hydraulic machinery, and industrial robots.
- (iv) Electro Electric Systems: Manufacturing and sale of transformers, low and medium voltage circuit breakers, switchgears, wind turbine systems, and power electronics and control systems.
- (v) Construction Equipment: Manufacturing and sale of construction equipment and wheel loaders.
- (vi) Green Energy: Services related to solar power systems, and new and renewable energy systems.
- (vii) Financial Services: Financing services.
- (viii) Oil Refining: Oil refining business.
- (ix) Others: Hotel operation, football club and others.

Information about these reportable segments is as follows:

- (1) The financial performance of each segment for the years ended December 31, 2015 and 2014 is as follows:

(In millions of won)

		2015				
		Sales	Inter-segment revenue	Operating profit	Profit (loss)	Depreciation
Shipbuilding	₩	17,491,517	(818,911)	(609,123)	(420,977)	337,134
Offshore, Industrial Plant and Engineering		8,797,326	(144,985)	(1,370,807)	(1,422,541)	75,953
Engine and Machinery		2,451,898	(675,318)	66,747	52,413	86,924
Electro Electric Systems		2,743,130	(235,783)	143,572	113,142	53,835
Construction Equipment		2,898,417	(673,296)	(116,183)	(199,543)	43,169
Green Energy		334,563	(4,307)	16,343	10,167	22,690
Financial Services		1,049,074	(9,686)	53,319	16,512	5,757
Oil Refining		16,577,056	(3,745,260)	628,686	471,471	274,894
Others		531,783	(335,504)	(287,751)	(197,338)	67,813
Consolidation adjustments(*)		(6,643,050)	6,643,050	(64,934)	213,471	(6,608)
	₩	<u>46,231,714</u>	<u>-</u>	<u>(1,540,131)</u>	<u>(1,363,223)</u>	<u>961,561</u>

(*) Consolidation adjustments are made by eliminating inter-segment transactions and unrealized profits and losses, and valuations of joint venture and investments in associates using the equity method.

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34. Operating Segments, Continued

- (1) Financial performance of each segment for the years ended December 31, 2015 and 2014 is as follows, continued:

(In millions of won)

		2014				
		Sales	Inter-segment revenue	Operating profit	Profit (loss)	Depreciation
Shipbuilding	₩	17,354,463	(922,243)	(1,895,913)	(1,293,834)	329,806
Offshore, Industrial Plant and Engineering		7,220,309	(157,695)	(1,361,123)	(1,353,496)	65,689
Engine and Machinery		2,138,868	(620,786)	(10,870)	7,226	84,759
Electro Electric Systems		2,584,795	(230,216)	86,342	75,547	51,423
Construction Equipment		3,620,415	(753,630)	(33,391)	(65,977)	44,938
Green Energy		317,446	(5,143)	(16,532)	(36,973)	25,763
Financial Services		748,576	(6,096)	36,290	26,548	6,455
Oil Refining		25,940,550	(4,853,409)	228,451	51,939	255,370
Others		499,542	(293,342)	(287,627)	(263,374)	65,293
Consolidation adjustments(*)		(7,842,560)	7,842,560	4,918	646,329	(5,972)
	₩	<u>52,582,404</u>	<u>-</u>	<u>(3,249,455)</u>	<u>(2,206,065)</u>	<u>923,524</u>

(*) Consolidation adjustments are made by eliminating inter-segment transactions and unrealized profits and losses, and valuations of joint venture and investments in associates using the equity method.

- (2) The assets and liabilities of each segment as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015		2014	
		Total assets	Total liabilities	Total assets	Total liabilities
Shipbuilding	₩	19,771,552	11,583,118	19,854,047	11,768,563
Offshore, Industrial Plant and Engineering		4,439,869	4,334,884	5,590,399	5,193,232
Engine and Machinery		1,670,699	964,888	1,938,024	1,096,338
Electro Electric Systems		2,038,135	894,247	1,991,669	910,846
Construction Equipment		2,213,078	917,296	2,581,100	1,190,989
Green Energy		475,559	26,159	752,341	65,099
Financial Services		6,166,253	4,877,176	6,594,122	5,385,250
Oil Refining		8,340,973	3,858,220	8,801,272	5,320,108
Others		14,873,688	8,440,872	15,045,692	7,570,703
Consolidation adjustments(*)		(10,256,970)	(1,662,986)	(9,764,248)	(1,755,286)
	₩	<u>49,732,836</u>	<u>34,233,874</u>	<u>53,384,418</u>	<u>36,745,842</u>

(*) Consolidation adjustments are made by eliminating inter-segment transactions and unrealized profits and losses, and valuations of joint venture and investments in associates using the equity method.

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34. Operating Segments, Continued

(3) Geographical information by subsidiary location is as follows:

(i) Sales for the years ended December 31, 2015 and 2014.

(In millions of won)

	2015		2014	
	Total sales	Intra-company revenue	Total sales	Intra-company revenue
Korea	₩ 46,863,551	(5,142,810)	50,704,232	(6,051,912)
North America	435,995	(8,242)	445,142	(4,424)
Asia	5,081,820	(1,473,939)	8,667,927	(1,759,573)
Europe	403,082	(13,403)	413,067	(16,090)
Others	90,316	(4,656)	194,596	(10,561)
Consolidation adjustments(*)	(6,643,050)	6,643,050	(7,842,560)	7,842,560
	₩ <u>46,231,714</u>	<u>-</u>	<u>52,582,404</u>	<u>-</u>

(*) Consolidation adjustments are made by eliminating intra-company transactions and unrealized profits and losses.

(ii) Non-current assets as of December 31, 2015 and 2014

(In millions of won)

	2015	2014
Korea	₩ 16,696,187	16,406,153
North America	119,344	122,871
Asia	405,056	417,803
Europe	45,090	80,653
Others	93,310	119,441
	<u>17,358,987</u>	<u>17,146,921</u>
Consolidation adjustments(*1)	1,449,068	1,518,404
Total(*2)	₩ <u>18,808,055</u>	<u>18,665,325</u>

(*1) Consolidation adjustments are made by eliminating intra-company transactions and unrealized profits and losses, and valuations of joint venture and investments in associates using the equity method.

(*2) Represents the sum of investment property, property, plant and equipment and intangible assets.

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35. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Salaries	₩ 650,594	721,404
Post-employment benefit costs	242,219	71,224
Employee welfare	141,193	164,780
Depreciation	94,010	93,076
Bad debt expenses	587,708	295,907
Ordinary development costs	169,699	183,448
Advertising	49,113	61,841
Printing	3,283	3,243
Warranty expenses	354,901	140,753
Insurance	13,421	14,513
Supplies	11,957	14,970
Utilities	6,873	7,759
Repairs	8,898	6,934
Travel	25,041	26,246
Research	19,716	35,271
Training	12,730	13,894
Service contract expenses	81,497	66,725
Transportation	205,439	210,516
Rent	42,119	48,300
Data processing	24,216	21,363
Entertainment	14,795	13,163
Taxes and dues	41,680	41,164
Service charges	119,451	99,343
Automobile maintenance	10,183	11,818
Sales commissions	45,024	57,512
Others	114,113	107,250
	<u>₩ 3,089,873</u>	<u>2,532,417</u>

36. Nature of Expenses

The classification of expenses by nature for the years ended December 31, 2015 and 2014 is as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Changes in inventories	₩ 1,265,902	257,753
Purchase of inventories	29,578,877	39,066,616
Depreciation	961,561	923,524
Amortization	106,679	94,649
Labor cost	3,788,958	3,610,253
Other expenses	12,069,868	11,879,064
	<u>₩ 47,771,845</u>	<u>55,831,859</u>

Total expenses consist of cost of sales and selling, general and administrative expenses.

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37. Finance Income and Finance Costs

Finance income and finance costs for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Finance income:		
Interest income	₩ 78,393	100,453
Gain on valuation of financial instruments at fair value through profit or loss	2,682	10,021
Gain on disposal of financial instruments at fair value through profit or loss	75,407	84,374
Gain on disposal of available-for-sale financial assets	434,844	228,659
Dividend income	40,942	40,716
Gain on foreign currency translation	246,883	171,052
Gain on foreign currency transactions	905,940	695,354
Gain on valuation of derivatives	14,419	19,365
Gain on derivatives transactions	101,735	261,074
Others	354	45
	<u>₩ 1,901,599</u>	<u>1,611,113</u>
Finance costs:		
Interest expense	₩ 225,663	255,332
Loss on valuation of financial instruments at fair value through profit or loss	3,568	8,891
Loss on disposal of financial instruments at fair value through profit or loss	60,150	67,575
Loss on disposal of available-for-sale financial assets	76,774	2,987
Impairment loss on available-for-sale financial assets	247,441	43,622
Loss on foreign currency translation	299,816	218,660
Loss on foreign currency transactions	952,692	774,579
Loss on valuation of derivatives	681,181	397,001
Loss on derivatives transactions	364,438	169,614
Others	21,606	8
	<u>₩ 2,933,329</u>	<u>1,938,269</u>

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38. Other Non-operating Income and Other Non-operating Expenses

Other non-operating income and other non-operating expenses for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Other non-operating income:		
Gain on disposal of investments in associates and joint ventures	₩ 7,066	210,892
Gain on disposal of property, plant and equipment	12,409	18,876
Gain on disposal of intangible assets	7,100	800
Gain on valuation of firm commitments	933,207	488,818
Reversal of other allowance doubtful accounts	106	25,674
Others	237,271	225,666
	<u>₩ 1,197,159</u>	<u>970,726</u>
Other non-operating expenses:		
Service charges	₩ 14,420	10,332
Impairment loss on other current assets	-	6,593
Loss on disposal of property, plant and equipment	32,603	15,542
Impairment loss on intangible assets	3,006	61,839
Loss on disposal of investments in associates and joint ventures	6,666	8,654
Loss on disposal of investment property	-	50
Loss on disposal of property, plant and equipment	16,845	19,583
Loss on disposal of intangible assets	2,178	576
Loss on valuation of firm commitments	63,717	179,448
Other bad debt expenses	8,551	3,965
Donation	20,317	56,598
Others	242,630	98,880
	<u>₩ 410,933</u>	<u>462,060</u>

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39. Income Tax Expense (Benefit)

- (1) The components of income tax expense (benefit) for the years ended December 31, 2015 and 2014 are as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Current tax expense	₩ 142,488	70,514
Adjustment for prior periods	(80,560)	7,125
Origination and reversal of temporary differences	(694,262)	(1,198,172)
Income tax recognized in other comprehensive income	154,138	221,553
Total income tax expense (benefit)	<u>₩ (478,196)</u>	<u>(898,980)</u>

- (2) Income tax recognized directly in other comprehensive income for the years ended December 31, 2015 and 2014 is as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Gain on valuation of available-for-sale financial assets	₩ 139,037	157,902
Gain (loss) on valuation of derivatives	(14,136)	8,882
Defined benefit plan actuarial loss	33,669	52,598
Hybrid bonds interest	(225)	225
Gain on disposal of treasury shares	(4,283)	-
Others	76	1,946
Income tax recognized directly in other comprehensive income	<u>₩ 154,138</u>	<u>221,553</u>

Income taxes related to gains/losses on valuation of available-for-sale financial assets, gains/losses on valuation of derivatives and defined benefit plan actuarial gains/losses and others are recognized in other comprehensive income.

- (3) Reconciliation of effective tax rate for the years ended December 31, 2015 and 2014 is as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Loss before income tax	₩ (1,841,419)	(3,105,045)
Income tax using the each component's statutory tax rate	(444,506)	(900,417)
Adjustment for:		
- Tax effect of non-deductible expenses	16,886	8,937
- Tax effect of non-taxable income	(29,301)	(13,540)
- Tax credits	(11,361)	(20,253)
- Current adjustments for prior periods	(80,560)	7,125
- Others	70,646	19,168
Income tax expenses (benefits)	<u>₩ (478,196)</u>	<u>(898,980)</u>
Effective tax rate	<u>% (*)</u>	<u>(*)</u>

(*) As income tax benefit is occurred, the Group did not calculate effective tax rate.

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39. Income Tax Expense (Benefit), Continued

(4) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2015 and 2014 are as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Deferred assets at the end of the period	₩ 1,089,437	393,481
Deferred assets (liabilities) at the beginning of the period	393,481	(805,843)
Others	1,694	1,152
Deferred tax expenses by origination and reversal of temporary differences	₩ <u>(694,262)</u>	<u>(1,198,172)</u>

(5) As of December 31, 2015, the tax effects of temporary difference were calculated using the enacted statutory tax rate for the fiscal period when the temporary differences are expected to be reversed.

(6) The Group sets off a deferred tax asset against a deferred tax liability only if it relates to income taxes levied by the same taxation authority and has a legally enforceable right to set off current tax assets against current tax liabilities.

(7) Changes in deferred tax assets (liabilities) for the years ended December 31, 2015 and 2014 are as follows:

<i>(In millions of won)</i>	<u>Beginning balance</u>	<u>Change</u>	<u>Ending balance</u>
2015			
Investments in subsidiaries and associates	₩ (289,346)	121,683	(167,663)
Available-for-sale financial assets	22,654	60,786	83,440
Reserve for research and human development	(111,038)	30,129	(80,909)
Trade and other receivables	292,496	19,124	311,620
Asset revaluation	(394,246)	3,585	(390,661)
Property, plant and equipment	(57,875)	(23,077)	(80,952)
Derivatives	11,248	1,979	13,227
Accrued expenses	51,621	(227)	51,394
Provisions	488,574	(190,532)	298,042
Others	379,393	672,506	1,051,899
	₩ <u>393,481</u>	<u>695,956</u>	<u>1,089,437</u>
2014			
Investments in subsidiaries and associates	₩ (229,410)	(59,936)	(289,346)
Available-for-sale financial assets	(532,732)	555,386	22,654
Reserve for research and human development	(152,503)	41,465	(111,038)
Trade and other receivables	241,599	50,897	292,496
Asset revaluation	(401,897)	7,651	(394,246)
Property, plant and equipment	(63,724)	5,849	(57,875)
Derivatives	(27,465)	38,713	11,248
Accrued expenses	30,810	20,811	51,621
Provisions	233,769	254,805	488,574
Others	95,710	283,683	379,393
	₩ <u>(805,843)</u>	<u>1,199,324</u>	<u>393,481</u>

(8) Since it is probable that future taxable profit will be available against which the unused tax losses can be utilized, the Group recognized the related deferred tax assets.

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40. Loss per Share

(1) Basic loss per share for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Loss attributable to owners of the Company	₩ (1,349,911)	(1,769,215)
Interest for hybrid bonds	(20,293)	(708)
Weighted average number of ordinary shares outstanding <i>(In thousands of shares)</i>	<u>56,275</u>	<u>55,225</u>
Loss per share <i>(In won)</i>	<u>₩ (24,349)</u>	<u>(32,049)</u>

(2) The weighted average number of ordinary shares for the year ended December 31, 2015 and 2014 are as follows:

(In shares)

	<u>2015</u>		
	<u>Number of shares outstanding</u>	<u>Weighted average</u>	<u>Weighted average number of shares outstanding</u>
Beginning balance	55,225,440	365/365	55,225,440
Disposal of treasury shares	1,167,690	287/365	918,156
	41,232	268/365	30,275
	1,443,980	22/365	87,034
	202,487	8/365	4,438
	1,698,694	2/365	9,308
weighted average numbers of ordinary shares	59,779,523		56,274,651

(In shares)

	<u>2014</u>		
	<u>Number of shares outstanding</u>	<u>Weighted average</u>	<u>Weighted average number of shares outstanding</u>
Beginning balance	55,225,440	365/365	55,225,440

(3) Since there are no dilutive potential common shares for the years ended December 31, 2015 and 2014, diluted earnings per share have not been calculated.

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41. Cash Generated from Operations

(1) Cash generated from operations for the years ended December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Loss for the year	₩ (1,363,223)	(2,206,065)
Adjustments for:		
Salaries	193,405	-
Post-employment benefit costs	252,045	380,318
Depreciation	961,561	923,524
Amortization	106,679	94,649
Bad debt expenses	587,708	295,907
Compensation expenses (income) associated with stock options	-	(10,076)
Finance income	(818,163)	(570,266)
Finance costs	1,699,471	1,065,566
Other non-operating income	(975,304)	(838,492)
Other non-operating expenses (income)	243,828	336,510
Share of profit of equity accounted investees	55,784	37,100
Income tax income	(478,196)	(898,980)
Finance income (sales)	(451,305)	(306,734)
Finance costs (cost of sales)	358,157	198,080
Changes in assets and liabilities:		
Short-term financial assets	106,168	(185,001)
Trade receivables	(843,447)	1,231,563
Other receivables	693,741	10,961
Due from customers for contract work	215,982	(374,519)
Inventories	1,265,902	257,753
Derivatives	(1,074,247)	588,961
Firm commitments	261,309	(375,430)
Other current assets	1,296,120	(129,642)
Long-term financial assets	(45)	(1,147)
Long-term trade receivables	(2,627)	(6,360)
Long-term other receivables	2,167	(2,824)
Other non-current assets	2,601	1,301
Short-term financial liabilities	11,564	927,205
Trade payables	(716,202)	(507,952)
Other payables	(36,231)	523,935
Advances from customers	(141,703)	18,157
Due to customers for contract work	(1,763,926)	1,415,486
Other current liabilities	(21,188)	12,891
Long-term other payables	(6,291)	(29,090)
Benefits paid	(350,084)	(185,810)
Succession of benefits	13,111	1,168
Plan assets	(43,784)	6,500
Long-term provisions	216,748	(50,756)
Other non-current liabilities	(1,259)	(8,441)
	₩ 820,049	3,846,015

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41. Cash Generated from Operations, Continued

(2) Significant transactions that do not involve cash inflows and outflows as of 2015 and 2014 are as follow:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Reclassification of construction-in-progress	₩ 737,156	908,715
Reclassification of current portion of bond and borrowings	1,751,276	2,570,104
Decrease of change in fair value of available-for-sale financial assets	(433,382)	(495,770)
Reclassification of accrued expense and treasury stocks due to payment of treasury stocks in accordance with wage and collective bargaining	141,189	-
Reclassification of investments in associates to available-for-sale financial assets	60,675	314,283

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42. Categories of Financial Instruments and Income and Costs by Categories

(1) Categories of financial instruments as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

	2015									
	Cash and cash equivalents	Held-for-trading investments	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivative assets	Held-for-trading liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative liabilities
Cash and cash equivalents	₩ 3,105,303	-	-	-	-	-	-	-	-	-
Short-term financial assets	-	3,726,853	288,053	217,832	394,489	-	-	-	-	-
Trade and other receivables	-	-	-	-	5,340,950	-	-	-	-	-
Due from customers for contract work	-	-	-	-	6,599,947	-	-	-	-	-
Derivative assets (current)	-	-	-	-	-	41,756	-	-	-	-
Long-term financial assets	-	31,749	268,974	886,068	2,692	-	-	-	-	-
Long-term trade and other receivables	-	-	-	-	589,100	-	-	-	-	-
Derivative assets (non-current)	-	-	-	-	-	9,375	-	-	-	-
Short-term financial liabilities	-	-	-	-	-	-	305,463	91,339	9,105,681	-
Trade and other payables	-	-	-	-	-	-	-	-	5,874,330	-
Derivative liabilities (current)	-	-	-	-	-	-	-	-	-	571,856
Long-term financial liabilities	-	-	-	-	-	-	210,203	942,507	8,053,165	-
Long-term trade and other liabilities	-	-	-	-	-	-	-	-	98,728	-
Derivative liabilities (non-current)	-	-	-	-	-	-	-	-	-	303,488
	<u>₩ 3,105,303</u>	<u>3,758,602</u>	<u>557,027</u>	<u>1,103,900</u>	<u>12,927,178</u>	<u>51,131</u>	<u>515,666</u>	<u>1,033,846</u>	<u>23,131,904</u>	<u>875,344</u>

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42. Categories of Financial Instruments and Income and Costs by Categories, Continued

(1) Categories of financial instruments as of December 31, 2015 and 2014 are summarized as follows, continued:

(In millions of won)

	2014									
	Cash and cash equivalents	Held-for-trading investments	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivative assets	Held-for-trading liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative liabilities
Cash and cash equivalents	₩ 3,229,315	-	-	-	-	-	-	-	-	-
Short-term financial assets	-	3,936,165	234,009	176,881	395,468	-	-	-	-	-
Trade and other receivables	-	-	-	-	5,734,112	-	-	-	-	-
Due from customers for contract work	-	-	-	-	7,154,045	-	-	-	-	-
Derivative assets (current)	-	-	-	-	-	127,429	-	-	-	-
Long-term financial assets	-	31,943	154,752	2,304,193	5,142	-	-	-	-	-
Long-term trade and other receivables	-	-	-	-	930,132	-	-	-	-	-
Derivative assets (non-current)	-	-	-	-	-	19,376	-	-	-	-
Short-term financial liabilities	-	-	-	-	-	-	1,611,249	64,739	10,453,720	-
Trade and other payables	-	-	-	-	-	-	-	-	6,362,168	-
Derivative liabilities (current)	-	-	-	-	-	-	-	-	-	204,790
Long-term financial liabilities	-	-	-	-	-	-	43,581	1,010,769	6,385,686	-
Long-term trade and other liabilities	-	-	-	-	-	-	-	-	104,397	-
Derivative liabilities (non-current)	-	-	-	-	-	-	-	-	-	162,567
	<u>₩ 3,229,315</u>	<u>3,968,108</u>	<u>388,761</u>	<u>2,481,074</u>	<u>14,218,899</u>	<u>146,805</u>	<u>1,654,830</u>	<u>1,075,508</u>	<u>23,305,971</u>	<u>367,357</u>

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42. Categories of Financial Instruments and Income and Costs by Categories, Continued

(2) Financial instruments income and costs by categories for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	Profit (loss) for the year		Other comprehensive income (loss)		Interest income and interest expense(*)		Fee income and fee expense		Impairment loss	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Cash and cash equivalents ₩	85,378	53,578	-	-	43,159	43,779	-	-	-	-
Held for trading investments	167,790	279,469	-	-	112,305	106,615	-	-	-	-
Financial assets at fair value through profit or loss	(22,213)	(19,647)	-	-	-	1,202	-	-	-	-
Available-for-sale financial assets	165,628	237,032	(433,382)	(495,770)	5,764	6,319	1,269	1,421	(261,336)	(50,070)
Loans and receivables	(249,372)	(22,852)	-	-	87,586	135,445	5,414	3,822	(606,308)	(299,669)
Held for trading liabilities	(139,327)	(134,012)	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	114,468	(11,263)	-	-	-	(2,078)	-	-	-	-
Financial liabilities measured at amortized cost	(865,033)	(725,067)	-	-	(453,249)	(464,061)	-	-	-	-
Derivatives	(929,464)	(290,486)	44,423	(26,889)	-	-	-	-	-	-

(*) Interest income and interest expense includes interest income and interest expense arising from effective interest rate amortization.

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43. Financial Instruments

(1) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of December 31, 2015 and 2014 is as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Held-for-trading investments	₩ 3,758,602	3,968,108
Financial assets at fair value through profit or loss	557,027	388,761
Available-for-sale financial assets	1,103,900	2,481,074
Loans and receivables	12,927,178	14,218,899
Derivative assets	51,131	146,805
	<u>₩ 18,397,838</u>	<u>21,203,647</u>

The maximum exposure to credit risk for financial guarantee contracts is ₩35,160 million as of December 31, 2015 (see notes 46).

The maximum exposure to credit risk for loans and receivables at the reporting date by geographic region is as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Korea	₩ 2,778,795	3,314,035
North America	934,777	1,865,707
Asia	2,772,194	3,227,740
Europe	3,172,249	3,678,061
Others	3,269,163	2,133,356
	<u>₩ 12,927,178</u>	<u>14,218,899</u>

(ii) Impairment loss

The aging of loans and receivables and the related allowance for impairment as of December 31, 2015 and 2014 are as follows:

<i>(In millions of won)</i>	<u>2015</u>		<u>2014</u>	
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
Not past due	₩ 12,020,486	(467,196)	13,095,697	(314,116)
Past due up to 6 months	828,387	(27,515)	720,635	(62,263)
Past due 6~12 months	219,795	(65,784)	361,423	(113,908)
Past due 1~3 years	1,013,507	(707,644)	1,356,610	(842,182)
More than three years	500,515	(387,373)	166,528	(149,525)
	<u>₩ 14,582,690</u>	<u>(1,655,512)</u>	<u>15,700,893</u>	<u>(1,481,994)</u>

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43. Financial Instruments, Continued

(1) Credit risk, continued

(ii) Impairment loss, continued

The movement in the allowance for impairment in respect of loans and receivables during the years ended December 31, 2015 and 2014 is as follows:

<i>(In millions of won)</i>		2015	2014
Beginning balance	₩	1,481,994	1,186,250
Impairment loss recognized		613,373	331,915
Reversal of allowance accounts		(7,065)	(32,246)
Write-offs and others		(67,587)	(3,925)
		(365,203)	-
Ending balance	₩	1,655,512	1,481,994

The allowance accounts in respect of loans and receivables is used to record impairment losses unless the Group is satisfied that all collection measures have been exhausted. At that point, the amounts are considered irrecoverable and are written off against the financial asset directly.

For the years ended December 31, 2015 and 2014, impairment losses and impairment reversals that occur in other receivables, recorded as other non-operating income are as follows.

<i>(In millions of won)</i>		2015	2014
Other bad debt expense	₩	8,551	3,965
Reversal of other allowance doubtful accounts		(106)	(25,674)
	₩	8,445	(21,709)

(iii) The analysis of the aging of financial assets that are past due as of December 31, 2015 and 2014 but not impaired is summarized as follows:

<i>(In millions of won)</i>		2015				
	₩	Carrying amount	6 months or less	6~12 months	1~3 years	More than 3 years
Loans and receivables	₩	1,368,181	795,167	154,012	305,861	113,141

<i>(In millions of won)</i>		2014				
	₩	Carrying amount	6 months or less	6~12 months	1~3 years	More than 3 years
Loans and receivables	₩	1,437,318	658,372	247,515	514,428	17,003

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43. Financial Instruments, Continued

(2) Liquidity risk

(i) The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2015 are summarized as follows:

(In millions of won)

		2015					
		Carrying amount	Contractual cash flow	6 months or less	6~12 months	1~3 years	More than 3 years
Non-derivative financial liabilities:							
Held for trading liabilities	₩	1,332,052	1,368,177	349,423	40,123	810,605	168,026
Bank loans		12,403,767	12,825,521	7,326,248	1,327,468	3,882,835	288,970
Bond issues		4,226,567	4,539,107	407,861	153,853	2,238,944	1,738,449
Exchangeable bond		221,762	259,715	-	-	259,715	-
Trade and other payables		5,973,058	6,077,910	5,913,791	54,088	109,578	453
Deposit liabilities		296,592	296,592	296,592	-	-	-
Others		10,158	10,189	10,174	15	-	-
Derivative financial liabilities:							
Derivative contracts used for hedging:							
Outflow		875,344	903,283	348,252	235,515	312,255	7,261
Other derivative contracts:							
Outflow		217,460	217,460	6,671	586	174,079	36,124
	₩	<u>25,556,760</u>	<u>26,497,954</u>	<u>14,659,012</u>	<u>1,811,648</u>	<u>7,788,011</u>	<u>2,239,283</u>

The maximum amount of assurance for financial guarantee contracts is ₩35,160 million as of December 31, 2015 (see Note 46).

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(ii) The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2014 are summarized as follows:

(In millions of won)

		2014					
		Carrying amount	Contractual cash flow	6 months or less	6~12 months	1~3 years	More than 3 years
Non-derivative financial liabilities:							
Held for trading liabilities	₩	2,584,179	2,584,420	1,546,174	27,236	1,004,793	6,217
Bank loans		12,840,581	13,054,915	6,758,011	2,272,811	3,590,188	433,905
Bond issues		3,702,546	3,976,190	1,005,712	340,077	1,532,531	1,097,870
Trade and other payables		6,466,565	6,585,439	6,184,503	284,097	116,306	533
Deposit liabilities		285,028	285,028	285,028	-	-	-
Others		11,251	11,251	11,251	-	-	-
Derivative financial liabilities:							
Derivative contracts used for hedging:							
Outflow		367,357	377,652	115,509	93,770	167,207	1,166
Other derivative contracts:							
Outflow		146,159	146,159	2,183	100,394	43,582	-
	₩	<u>26,403,666</u>	<u>27,021,054</u>	<u>15,908,371</u>	<u>3,118,385</u>	<u>6,454,607</u>	<u>1,539,691</u>

The maximum amount of assurance for financial guarantee contracts is ₩32,976 million as of December 31, 2014.

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43. Financial Instruments, Continued

(2) Liquidity risk, continued

(iii) The periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won)

		2015					
		Carrying amount	Expected cash flows	6 months or less	6~12 months	1~3 years	More than 3 years
Forward exchange contracts							
Assets	₩	10,208	10,304	9,437	519	348	-
Liabilities		(31,374)	(31,812)	(22,245)	(8,171)	(1,396)	-
Product forward							
Assets		26,673	26,673	26,673	-	-	-
Liabilities		(25,790)	(25,790)	(25,790)	-	-	-
Interest rate swaps							
Liabilities		(2,576)	(2,576)	(760)	(691)	(1,125)	-
	₩	<u>(22,859)</u>	<u>(23,201)</u>	<u>(12,685)</u>	<u>(8,343)</u>	<u>(2,173)</u>	<u>-</u>

(In millions of won)

		2014					
		Carrying amount	Expected cash flows	6 months or less	6~12 months	1~3 years	More than 3 years
Forward exchange contracts							
Assets	₩	10,317	10,652	3,833	3,112	3,707	-
Liabilities		(86,813)	(88,529)	(55,421)	(28,776)	(4,303)	(29)
Product forward							
Assets		-	-	-	-	-	-
Liabilities		-	-	-	-	-	-
Interest rate swaps							
Liabilities		(4,239)	(4,386)	(773)	(758)	(2,205)	(650)
	₩	<u>(80,735)</u>	<u>(82,263)</u>	<u>(52,361)</u>	<u>(26,422)</u>	<u>(2,801)</u>	<u>(679)</u>

(3) Currency risk

(i) Exposure to currency risk

The Group's exposure to foreign currency risk based on notional amounts as of December 31, 2015 and 2014 is as follows:

(In millions of won)

		2015					
		USD	EUR	CNY	JPY	Others	Total
Cash and cash equivalents	₩	863,414	347	1,787	213	162,085	1,027,846
Loans and receivables		10,613,112	145,190	8,863	1,280	635,621	11,404,066
Trade and other payables		(2,627,678)	(122,684)	(520)	(8,686)	(382,098)	(3,141,666)
Borrowings		(4,124,657)	(153,173)	-	(88,705)	(6,773)	(4,373,308)
Gross statement of financial position exposure		4,724,191	(130,320)	10,130	(95,898)	408,835	4,916,938
Derivative contracts		(816,891)	(7,593)	-	(22)	94	(824,412)
Net exposure	₩	<u>3,907,300</u>	<u>(137,913)</u>	<u>10,130</u>	<u>(95,920)</u>	<u>408,929</u>	<u>4,092,526</u>

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43. Financial Instruments, Continued

- (3) Currency risk, continued
(i) Exposure to currency risk, continued

(In millions of won)

	2014					
	USD	EUR	CNY	JPY	Others	Total
Cash and cash equivalents	₩ 570,755	8,536	997	285	79,262	659,835
Loans and receivables	10,486,196	121,199	112,947	3,500	468,871	11,192,713
Trade and other payables	(2,326,570)	(122,775)	(7,236)	(11,751)	(213,397)	(2,681,729)
Borrowings	(3,909,110)	(290,275)	-	(94,122)	(22)	(4,293,529)
Gross statement of financial position exposure	4,821,271	(283,315)	106,708	(102,088)	334,714	4,877,290
Derivative contracts	(169,291)	(20,814)	-	(26,806)	(404)	(217,315)
Net exposure	₩ 4,651,980	(304,129)	106,708	(128,894)	334,310	4,659,975

Significant exchange rates applied for the years ended December 31, 2015 and 2014 are as follows:

(In won)

	Average rate		Spot rate	
	2015	2014	2015	2014
USD	₩ 1,131.49	1,053.22	1,172.00	1,099.20
EUR	1,255.16	1,398.82	1,280.53	1,336.52
CNY	179.48	170.93	178.48	176.81
JPY(100)	934.56	996.19	972.01	920.14

- (ii) Sensitivity analysis

A weakening of the won, as indicated below, against the USD, EUR, CNY, JPY and other currencies as of December 31, 2015 and 2014 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014. The changes in profit or loss are as follows:

(In millions of won)

	Profit or loss	
	2015	2014
USD (3 percent strengthening)	₩ 117,219	139,559
EUR (3 percent strengthening)	(4,137)	(9,124)
CNY (3 percent strengthening)	304	3,201
JPY (3 percent strengthening)	(2,878)	(3,867)

A strengthening of the won against the above currencies as of December 31, 2015 and 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above assuming all other variables remain constant.

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43. Financial Instruments, Continued

(4) Interest rate risk

(i) The interest rate profile of the Group's interest-bearing financial instruments as of December 31, 2015 and 2014 is as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
Fixed rate instruments:		
Financial assets	₩ 6,772,907	6,576,330
Financial liabilities	(13,004,075)	(13,855,120)
	<u>₩ (6,231,168)</u>	<u>(7,278,790)</u>
Variable rate instruments:		
Financial assets	₩ 1,233,328	1,980,954
Financial liabilities	(3,896,007)	(2,706,472)
	<u>₩ (2,662,679)</u>	<u>(725,518)</u>

(ii) The Group doesn't have recognized fixed rate instruments as financial instruments at fair value recognized through profit or loss, and also, has not designated derivatives such as interest rate swap contracts as hedging instruments of hedge accounting. Therefore, changes in interest rate have not affected net income.

(iii) Interest rate risk arises from savings and borrowings with floating interest rates. The Group properly hedges the risk borrowings with floating interest rates through interest rate swaps. Interest rate swap contracts as of December 31, 2015 are as follows:

(In millions of won)

<u>Counterparties</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Expiration date</u>
The Korea Development Bank	KRW 50,000	Receives floating interest rate CD (91 days)+1.95% Pays fixed interest rate 6.73%	2017.11.21
JP Morgan and others	KRW 130,000	Receives floating interest rate CD (91 days) Pays fixed interest rate 2.02%~3.07%	2017.05.22

(iv) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates as of December 31, 2015 and 2014 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2014. The changes in equity and profit or loss are as follows:

(In millions of won)

		<u>Profit or loss</u>		<u>Equity</u>	
		<u>100 bp increase</u>	<u>100 bp decrease</u>	<u>100 bp increase</u>	<u>100 bp decrease</u>
2015					
Variable rate instruments	₩	(26,627)	26,627	-	-
Interest rate swaps		1,800	(1,800)	500	(500)
Net cash flow sensitivity	₩	<u>(24,827)</u>	<u>24,827</u>	<u>500</u>	<u>(500)</u>
2014					
Variable rate instruments	₩	(7,255)	7,255	-	-
Interest rate swaps		3,402	(3,402)	1,595	(1,595)
Net cash flow sensitivity	₩	<u>(3,853)</u>	<u>3,853</u>	<u>1,595</u>	<u>(1,595)</u>

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43. Financial Instruments, Continued

(5) Fair values

(i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

(In millions of won)

	2015		2014	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets carried at fair value:				
Held for trading investments	₩ 3,758,602	3,758,602	3,968,108	3,968,108
Financial assets at fair value through profit or loss	557,027	557,027	388,761	388,761
Available-for-sale financial assets(*)	1,103,900	1,103,900	2,481,074	2,481,074
Derivative assets	51,131	51,131	146,805	146,805
	<u>₩ 5,470,660</u>	<u>5,470,660</u>	<u>6,984,748</u>	<u>6,984,748</u>
Cash and cash equivalents	₩ 3,105,303	3,105,303	3,229,315	3,229,315
Assets carried at amortized cost:				
Loans and receivables	₩ 12,927,178	12,927,178	14,218,899	14,218,899
Financial assets total	<u>₩ 21,503,141</u>	<u>21,503,141</u>	<u>24,432,962</u>	<u>24,432,962</u>
Liabilities carried at fair value:				
Held for trading liabilities	₩ 515,666	515,666	1,654,830	1,654,830
Financial liabilities at fair value through profit or loss	1,033,846	1,033,846	1,075,508	1,075,508
Derivative liabilities	875,344	875,344	367,357	367,357
	<u>₩ 2,424,856</u>	<u>2,424,856</u>	<u>3,097,695</u>	<u>3,097,695</u>
Liabilities carried at amortized cost:				
Bank loans	₩ 12,403,767	12,403,767	12,840,581	12,840,581
Bond issues	4,226,567	4,226,567	3,702,546	3,702,546
Exchangeable bond	221,762	221,762	-	-
Trade and other payables	5,973,058	5,973,058	6,466,565	6,466,565
Deposit liabilities	296,592	296,592	285,028	285,028
Others	10,158	10,158	11,251	11,251
	<u>₩ 23,131,904</u>	<u>23,131,904</u>	<u>23,305,971</u>	<u>23,305,971</u>
Financial liabilities total	<u>₩ 25,556,760</u>	<u>25,556,760</u>	<u>26,403,666</u>	<u>26,403,666</u>

(*) The amounts of available-for-sale financial assets that were recorded at their acquisition cost because the fair values cannot be estimated reliably as of December 31, 2015 and 2014 are ₩64,839 million and ₩99,169 million, respectively.

(ii) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. The interest rates applied as of December 31, 2015 and 2014 are as follows:

	2015	2014
Available-for-sale financial assets	1.62%~12.20%	2.07%~13.92%
Derivatives	1.07%~5.26%	2.07%~5.86%

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43. Financial Instruments, Continued

(5) Fair values, continued

(iii) Fair value hierarchy

The Group classified fair value measurements in accordance with the fair value hierarchy which reflects the significance of the inputs used in fair value measurements.

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

The financial instruments carried at fair value, by fair value hierarchy as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2015					
Held for trading investments	₩	1,686,898	2,040,256	31,448	3,758,602
Financial assets at fair value					
through profit or loss		-	178,189	378,838	557,027
Available-for-sale financial assets		653,915	273,275	111,871	1,039,061
Derivative assets		-	51,131	-	51,131
Held for trading liabilities		177,987	163,287	174,392	515,666
Financial liabilities at fair value					
through profit or loss		-	-	1,033,846	1,033,846
Derivative liabilities		-	875,344	-	875,344
2014					
Held for trading investments		934,946	3,001,080	32,082	3,968,108
Financial assets at fair value					
through profit or loss		-	135,839	252,922	388,761
Available-for-sale financial assets		2,072,015	236,133	73,757	2,381,905
Derivative assets		-	146,805	-	146,805
Held for trading liabilities		1,377,832	134,498	142,500	1,654,830
Financial liabilities at fair value					
through profit or loss		-	-	1,075,508	1,075,508
Derivative liabilities		-	367,357	-	367,357

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 are comprised primarily of listed equity investments.

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43. Financial Instruments, Continued

(5) Fair values, Continued

(iii) Fair value hierarchy, Continued

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fairly value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Unlisted equity securities, investments in capital and others investments in companies newly established or having no comparative company are excluded from the fair value valuation because their fair value cannot be measured reliably.

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43. Financial Instruments, Continued

- (6) The valuation of the fair value hierarchy Level 2 and inputs description.
The valuation techniques and input variables used in measuring Level 2 fair values as of December 31, 2015 and December 31, 2014 are as follows:

(In millions of won)

	2015	2014	Valuation techniques	Input variables
Held-for-trading investments:				
Debt securities	₩ 2,030,404	2,986,838	Cash flow discount model and others	Discount rate and others
Beneficiary certificates	8,109	10,661	Net asset value, cash flow discount model and others	Discount rate and others
Derivatives	1,743	581	Cash flow discount model and others	Currency forward price, discount rate and others
Others	-	3,000	Base price	
	<u>2,040,256</u>	<u>3,001,080</u>		
Financial assets at fair value through profit or loss:				
Others	178,189	135,839	Net asset value, cash flow discount model and others	Discount rate and others
Available-for-sale financial assets:				
Debt securities	183,747	176,462	Cash flow discount model and others	Discount rate and others
Beneficiary certificates	17,150	50,835	Market approach, net asset value, Cash flow discount model and others	CER future price, discount rate and others
Others	72,378	8,836	Net asset value and others	
	<u>273,275</u>	<u>236,133</u>		
Derivatives assets:				
Derivatives	51,131	146,805	Cash flow discount model and others	Currency forward price, discount rate and others
Held-for-trading liabilities:				
Sale of securities	120,458	130,995	Cash flow discount model and others	Discount rate and others
Derivatives	6,705	2,997	Cash flow discount model and others	Currency forward price, discount rate and others
Exchange rights to exchangeable bond	36,124	-	Binomial model	Volatility, discount rate and others
Others	-	506	Cash flow discount model and others	Currency forward price, discount rate and others
	<u>163,287</u>	<u>134,498</u>		
Derivatives liabilities:				
Derivatives	875,344	367,357	Cash flow discount model and others	Currency forward price, discount rate and others

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43. Financial Instruments, Continued

(7) Level 3 fair values

(i) Changes in assets and liabilities which are classified as Level 3 fair values among assets and liabilities measured at fair value for the year ended December 31, 2015 and 2014 are as follows

(In millions of won)

		2015						
		Beginning Balance	Acquisitions	Disposals	Transfer to Level 3	Transfer from Level 3	Valuation	Ending Balance
Held-for-trading investments	₩	32,082	31,123	(24,588)	-	-	(7,169)	31,448
Financial assets at fair value through profit or loss		252,922	460,058	(304,100)	-	-	(30,042)	378,838
Available-for-sale financial assets		73,757	3,107	(8,510)	44,790	-	(1,273)	111,871
Held-for-trading liabilities		142,500	45,836	(109,780)	-	-	95,836	174,392
Financial liabilities at fair value through profit or loss		1,075,508	1,364,766	(1,275,997)	-	-	(130,431)	1,033,846

(In millions of won)

		2014						
		Beginning Balance	Acquisitions	Disposals	Transfer to Level 3	Transfer from Level 3	Valuation	Ending Balance
Held-for-trading investments	₩	36,126	37,870	(41,683)	-	-	(231)	32,082
Financial assets at fair value through profit or loss		100,115	367,591	(193,719)	-	-	(21,065)	252,922
Available-for-sale financial assets		93,496	15,178	(17,067)	-	(9,316)	(8,534)	73,757
Held-for-trading liabilities		9,919	145,728	(16,898)	-	-	3,751	142,500
Financial liabilities at fair value through profit or loss		484,017	1,662,382	(982,501)	-	-	(88,390)	1,075,508

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43. Financial Instruments, Continued

(7) Level 3 fair values, continued

(ii) The valuation techniques and input variables used in measuring Level 3 fair values as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	Valuation techniques	Input variables	Significant unobservable input variables	Ranges of significant unobservable input variables
Held-for-trading investments:					
Derivatives	₩ 31,448	Black-Scholes Models and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.145230 ~ 0.548749
Financial asset at fair value through profit or loss:					
Others	378,838	Black-Scholes Models and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.145230 ~ 0.548749
Available-for-sale financial assets:					
Equity securities	71,578	Black-Scholes Models and others, Market Comparison Technique	Discount rate, Market multiple and others	Discount rate, market multiples and others	3.84%~13.92% 2.41
Beneficiary certificates	32,125	Base price	-	-	-
Others	8,168	Cash flow discount model	Discount rate and others	Discount rate and others	4.53%~9.83%
	111,871				
Financial liabilities held for trading:					
Derivatives	174,392	Black-Scholes model and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.145230 ~ 0.548749
Financial liabilities at fair value through profit or loss:					
Others	1,033,846	Black-Scholes model and others	Volatility and others	Underlying asset price, variability of underlying asset	0.145230 ~ 0.548749

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
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43. Financial Instruments, Continued

(7) Level 3 fair values, continued

(ii) The valuation techniques and input variables used in measuring Level 3 fair values as of December 31, 2015 and 2014 are as follows, continued:

(In millions of won)

	2014	Valuation techniques	Input variables	Significant unobservable input variables	Ranges of significant unobservable input variables
Held-for-trading investments:					
Derivatives	₩ 32,082	Black-Scholes Models and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.030967 ~ 0.488671
Financial asset at fair value through profit or loss:					
Others	252,922	Black-Scholes Models and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.030967 ~ 0.488671
Available-for-sale financial assets:					
Equity securities	63,622	Black-Scholes Models and others, Market Comparison Technique	Discount rate, Market multiple and others	Discount rate, market multiples and others	3.84%~13.92% 0.83
Beneficiary certificates	530	Base price	-	-	-
Others	9,605	Cash flow discount model	Discount rate and others	Discount rate and others	4.53%~9.83%
	<u>73,757</u>				
Financial liabilities held for trading:					
Derivatives	142,500	Black-Scholes model and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.030967 ~ 0.488671
Financial liabilities at fair value through profit or loss:					
Others	1,075,508	Black-Scholes model and others	Volatility and others	Underlying asset price, variability of underlying asset	0.030967 ~ 0.488671

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43. Financial Instruments, Continued

(7) Level 3 fair values, continued

(iii) Effects by changes in unobservable input variables on fair value measurement of financial assets and liabilities as of December 31, 2015 is as follows:

(In millions of won)

	Unobservable input variables	Effects by changes in unobservable input variables on fair value measurement	Measuring methods of the effect of changes	Effects of changes in fair value			
				Profit (loss) for the year		Other comprehensive income (loss)	
				Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
For sale financial asset:							
Derivatives	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10% Volatility increase or decrease	₩ 3,213	(3,721)	-	-
Financial asset at fair value through profit or loss:							
Others	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10% Volatility increase or decrease	1,589	(1,519)	-	-
Available-for-sale financial assets:							
Equity securities	Discount rate	Fair value decrease by discount rate increase	Measuring fair value changes by 1% discount rate increase or decrease	-	-	7,839	(5,418)
	Price multiple	Fair value increase by market multiple increase	Measuring fair value changes by 10% market multiple increase or decrease	-	-	466	(466)
Financial liabilities held for trading:							
Derivatives	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10% Volatility increase or decrease	19,598	(18,458)	-	-
Financial liabilities at fair value through profit or loss:							
Others	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10% Volatility increase or decrease	17,126	(17,796)	-	-

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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For the years ended December 31, 2015 and 2014

43. Financial Instruments, Continued

(7) Level 3 fair values, continued

(iv) Effects by changes in unobservable input variables on fair value measurement of financial assets and liabilities as of December 31, 2014 is as follows:

(In millions of won)

	Unobservable input variables	Effects by changes in unobservable input variables on fair value measurement	Measuring methods of the effect of changes	Effects of changes in fair value			
				Profit (loss) for the year		Other comprehensive income (loss)	
				Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
For sale financial asset:							
Derivatives	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10% Volatility increase or decrease	₩ 1,446	(2,495)	-	-
Financial asset at fair value through profit or loss:							
Others	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10% Volatility increase or decrease	629	(761)	-	-
Available-for-sale financial assets:							
Equity securities	Discount rate	Fair value decrease by discount rate increase	Measuring fair value changes by 1% discount rate increase or decrease	-	-	7,987	(5,152)
	Price multiple	Fair value increase by market multiple increase	Measuring fair value changes by 10% market multiple increase or decrease	-	(4,536)	748	3,786
Others	Discount rate	Fair value decrease by discount rate increase	Measuring fair value changes by 1% discount rate increase or decrease	-	-	13,913	(6,764)
Financial liabilities held for trading:							
Derivatives	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10% Volatility increase or decrease	364	(342)	-	-
Financial liabilities at fair value through profit or loss:							
Others	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10% Volatility increase or decrease	2,080	(3,232)	-	-

As the impact from changes in unobservable input variables on financial assets and liabilities cannot be reliably estimated, they are excluded from the effects of changes in fair value.

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43. Financial Instruments, Continued

(8) Transfer of financial assets

(i) Transferred financial assets that are not derecognized in their entirety as of December 31, 2015 and 2014 are as follows:

(In millions of won)

		Financial asset at fair value through profit or loss	
		Financial assets held for trading	
		2015	2014
Carrying amount of asset	₩	1,469,833	177,928
Carrying amount of related liabilities		1,395,600	168,700
For those liabilities that have recourse only to the transferred assets:			
Fair value of assets		1,469,833	177,928
Fair value of related liabilities		1,395,600	168,700
Net position		74,233	9,228

(ii) Lending securities

The Group continues to recognize whole lending securities in which the Group retains substantially all the risks and rewards of ownership of transferred lending securities because the Group will require the securities after the rental periods expires. As of December 31, 2015 and 2014, book value of the lending securities is as follows:

(In millions of won)

		2015	2014	Borrowers
Available-for-sale financial asset	Common stocks of Hyundai Merchant Marine Co., Ltd	₩ 43,279		Merrill Lynch International, The Hongkong and Shanghai Banking Corporation Limited

In addition to above, debt and rental securities of HI Investment & Securities Co., Ltd, one of subsidiaries, as of years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

		2015	2014
Stock lending and borrowing with credit	Stocks	₩ 29	-
Debt securities	Stocks	3,305	2,821
	Bonds	284,351	217,628
		₩ 287,685	220,449

HI Investment & Securities Co., Ltd has securities lending and borrowing transaction. When borrowing securities from Korea Securities Depository, HI Investment & Securities Co., Ltd record them in memorandum account as borrowed securities, and recognize it as financial liabilities at fair value through profit or loss when disposing them. HI Investment & Securities Co., Ltd also recognize short-selling as financial liabilities at fair value through profit or loss.

(iii) The Group has entered into a financial asset transfer agreement up to USD 318,860 thousand with HSBC Bank Plc on July 6, 2015 in order to sell trade receivables of Jeddah South construction. According to this agreement, the Group sold trade receivables related to the construction amounting to USD 248,334 thousand on July 7, 2015.

The Group also has entered into a financial asset transfer agreement with National Bank of Abu Dhabi PJSC on December 30, 2015 in order to sell trade receivables of NASR2 construction. According to this agreement, the Group sold trade receivables related to the construction amounting to USD 26,630 thousand on this year.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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43. Financial Instruments, Continued

(9) Offsetting of financial assets and financial liabilities

The details of financial assets or financial liabilities netting arrangements as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015					
	Total recognized financial assets	Total recognized financial assets that will be setoff	Net financial assets presented in the Statement of Financial Position	Related amount : won't be setoff in the Statement of Financial Position		Net amount
				Financial instruments	Received cash security	
Financial assets						
Held for trading investments	₩ 3,078,238	-	3,078,238	(2,629,483)	-	448,755
Financial assets at fair value through profit or loss	253,283	-	253,283	(66,528)	-	186,755
Available for sale financial asset	182,597	-	182,597	(56,274)	-	126,323
Loans and receivables	166,856	(98,800)	68,056	-	-	68,056
	<u>₩ 3,680,974</u>	<u>(98,800)</u>	<u>3,582,174</u>	<u>(2,752,285)</u>	<u>-</u>	<u>829,889</u>
Financial liabilities						
Held for trading liabilities	₩ 448,721	-	448,721	(313,583)	(22,000)	113,138
Financial liabilities at fair value through profit or loss	393,761	-	393,761	(45,965)	-	347,796
Financial liabilities carried at amortized cost	2,514,074	(98,800)	2,415,274	(2,370,735)	-	44,539
	<u>₩ 3,356,556</u>	<u>(98,800)</u>	<u>3,257,756</u>	<u>(2,730,283)</u>	<u>(22,000)</u>	<u>505,473</u>

The 'related amount that won't be setoff in the statement of financial position' is recognized up to the amount of 'Net financial assets presented in the statement of financial position'.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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43. Financial Instruments, Continued

(9) Offsetting of financial assets and financial liabilities, continued

The details of financial assets or financial liabilities netting arrangements as of December 31, 2015 and 2014 are as follows, continued:

(In millions of won)

	2014					
	Total recognized financial assets	Total recognized financial assets that will be setoff	Net financial assets presented in the Statement of Financial Position	Related amount : won't be setoff in the Statement of Financial Position		Net amount
				Financial instruments	Received cash security	
Financial assets	₩					
Held for trading investments	3,081,827	-	3,081,827	(2,854,884)	-	226,943
Financial assets at fair value through profit or loss	175,832	-	175,832	(71,167)	-	104,665
Available for sale financial asset	120,416	-	120,416	-	-	120,416
Loans and receivables	219,249	(147,423)	71,826	-	-	71,826
	<u>₩ 3,597,324</u>	<u>(147,423)</u>	<u>3,449,901</u>	<u>(2,926,051)</u>	<u>-</u>	<u>523,850</u>
Financial liabilities						
Held for trading liabilities	₩ 1,617,077	-	1,617,077	(1,506,883)	(19,300)	90,894
Financial liabilities at fair value through profit or loss	922,185	-	922,185	(71,167)	-	851,018
Financial liabilities carried at amortized cost	1,528,028	(147,423)	1,380,605	(1,328,701)	-	51,904
	<u>₩ 4,067,290</u>	<u>(147,423)</u>	<u>3,919,867</u>	<u>(2,906,751)</u>	<u>(19,300)</u>	<u>993,816</u>

The 'related amount that won't be setoff in the statement of financial position' is recognized up to the amount of 'Net financial assets presented in the statement of financial position'.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES
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44. Commitments and Contingencies

- (1) As of December 31, 2015, the Group has entered into bank overdraft agreements with KEB Hana Bank and others amounting to ₩322,000 million, USD 20,000 thousand, EUR 7,500 thousand, CNY 232,557 thousand, INR 45,000 thousand and general loan agreements and deposit mortgage loan agreement amounting to ₩2,147,367 million, USD 1,918,000 thousand, EUR 22,750 thousand, CNY 1,023,030 thousand and BRL 16,210 thousand.
- (2) As of December 31, 2015, the Group has entered into credit facilities agreements such as letters of credit with various banks for the Group's exports and imports totaling ₩55,000 million, USD 9,310,101 thousand and INR 630,000 thousand.
- (3) As of December 31, 2015, the Group has entered into credit facilities agreements such as pre-shipment credit and network loan with various banks amounting to ₩5,953,700 million, USD 223,191 thousand and CNY 436,509 thousand.
- (4) As of December 31, 2015, six bank notes and one check have been provided to customers as collaterals for the Group's borrowings from the customers and construction contract performance guarantees.
- (5) As of December 31, 2015, the Group is contingently liable for loan guarantees of its foreign subsidiaries amounting to ₩429,000 million, USD 1,668,312 thousand, EUR 34,250 thousand, CNY 2,961,694 thousand and BRL 109,956 thousand and purchase loans of customers amounting to CNY 73,325 thousand of solidarity with local dealers. The Group has provided performance guarantees in relation to Jazan Refinery and Terminal Project Package 2 (contract amount: USD 327,409 thousand) which is being built by Hyundai Arabia Company LLC., Moho Nord Tension Leg Platform Project (contract amount: USD 847,638 thousand, EUR 48,642 thousand) and Moho Nord Floating Production Unit Project (contract amount: USD 1,243,471 thousand) which is being built by HHI France SAS and HHI Mauritius Ltd, one of the Group's subsidiaries. Furthermore, the Group has also entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd., one of the Group's subsidiaries, for the construction of six ships at a contract amount of USD 765,699 thousand.
- (6) In connection with the Group's contract performance guarantees, the Group has been provided with maximum guarantees amounting to ₩2,166,383 million and USD 30,842,840 thousand by various banking facilities, and regarding ships advance from customers, the Group has also been provided with maximum guarantees amounting to USD 21,982,569 thousand by Export-Import Bank of Korea and others. Regarding this, the Group provides as collateral its ships under construction and construction materials.
- (7) The Group entered into a consortium agreement on a natural resource development project with various organizations including Korea National Oil Corporation. Related other non-current assets related to resource development as of December 31, 2015 and 2014 are summarized as follows.

<i>(In millions of won)</i>	2015	2014
Other non-current assets	₩ 63,307	63,307
Accumulated impairment	(63,307)	(63,307)
	₩ -	-

The Group recognized impairment loss amounting to ₩ 63,307 million for the year ended December 31, 2013, since the carrying amount of the investment related to resource development exceeds its recoverable amount. And also, the Group obtained borrowings for a natural resource development project from the Korea National Oil Corporation (see Note 23).

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44. Commitments and Contingencies, Continued

- (8) As of December 31, 2015, the Group entered into a conditional commercial paper purchase guarantee contract guaranteed by Lotte Engineering & Construction Co., Ltd. and other companies amounting to ₩181,600 million.
- (9) As of December 31, 2015, the Group entered into guarantee contracts as follows.

(In millions of won)

Underlying asset	Issuing entity	Agreement		Maturity	Business
		limits			
purchase commitment	Change Gimpo 2 nd CO.,LTD	₩	30,000	2016-10-26	Gimpo and Poongmu apartment construction project
	IVYMOONJUNG 4 th CO.,LTD		10,000	2017-11-24	Munjeong-dong knowledge industry construction project
	IVYMOONJUNG 2 nd CO.,LTD		5,000	2017-11-24	Munjeong-dong knowledge industry construction project
	DHK 2 nd CO.,LTD		5,000	2017-06-30	Sejong City block C49 commercial / business facility expansion project
	HY project		9,300	2016-09-12	Unsold industry complex Secured loan
	Dongsak express 2nd		30,000	2018-06-19	Pyeongtaek Dongsak 2nd District Cooperative apartment Housing Project
	Wind herb 1 st CO.,LTD		20,000	2016-07-22	Hwaseong Gisan-dong Co-housing project land mortgage
	Welcome to Hagal 1 st CO.,LTD		35,000	2019-08-23	Yongin Hagal-dong Cooperative apartment Housing Project
	DIONE PLUS 1 CO., LTD.		68,100	2019-12-18	New Songdo City public housing construction project
	Ferguson 1 st CO.,LTD		30,000	2019-01-18	Pyeongtaek Dongsak 2nd District Cooperative apartment Housing Project(2 nd)
	HIGUMDAN 1 st CO.,LTD		41,800	2017-02-24	Gumdan knowledge industry center construction project
	HI LCT CO.,LTD		30,000	2020-03-22	Haeundae LCT Complex Development Project
	HI Daehyeon The Shop CO.,LTD		10,000	2019-09-25	Ulsan Daehyeon-dong Cooperative apartment Housing Project
	HI Yeonsan CO.,LTD		5,700	2019-05-03	Busan Yeonsan-dong Residential Complex Housing Project
	HI Opo 1 st CO.,LTD		15,000	2018-12-09	Gwangju Opo-eup Cooperative apartment Housing Project
	ShineCross 1 st		30,000	2016-02-29	Hwaseong Hyangnam public housing New Construction Project
	HIPROJECT 19 th CO.,LTD		20,400	2016-02-22	Gimpo Hakwoon 4 th industrial complex construction project
	HIPROJECT 20 th CO.,LTD		30,500	2016-02-22	Gimpo Hakwoon 4 th industrial complex construction project
	HIPROJECT 9 th CO.,LTD		25,000	2016-07-08	Yangju and Baeksuk district apartment construction project
	AAGONGSAM 5 th CO.,LTD		15,000	2017-11-20	Gimpo Hangang new city apartment construction project
	THE K SONGSAN 2 nd CO., LTD		16,000	2016-09-29	Songsan Dangjin 2 General Industrial Complex expansion project
	GOLDEN CLEAR 10 th CO., LTD		20,000	2018-10-28	Goyang Samsung Wonheung station Officetel/Commercial building development project
	HI FINANCE 12 th CO., LTD		50,200	2017-06-22	Incheon Background site of north port mortgage Loan

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44. Commitments and Contingencies, Continued

(9) As of December 31, 2015, the Group entered into the following agreements, such as loan purchase commitment, Continued:

(In millions of won)

Issuing entity	Agreement		Business
	limits	Maturity	
TRIUMPH1 3 th CO.,LTD	₩ 10,200	2017-09-08	Incheon-Midan city Facility A mortgage loan
TRIUMPH2 2 nd CO.,LTD	11,300	2017-09-08	Incheon-Midan city Facility A mortgage loan
TRIUMPH4 1 st CO.,LTD	7,800	2017-09-08	Incheon-Midan city Facility A mortgage loan
PLAN-UP Gimpo 3 rd CO., LTD	18,000	2018-10-22	Gimpo and Poongmu apartment construction project
PLAN-UP Gimpo 7 th CO., LTD	15,000	2018-10-22	Gimpo and Poongmu apartment construction project
Hi Yeongjong 2nd	55,000	2020-06-15	Paradise city development business
HSBLUE 1 st CO.,LTD	20,200	2019-02-12	Subordinated debt of JB Woori Capital Co.,Ltd
JINIFOREVER 1ST CO., LTD.	40,300	2020-11-11	Subordinated debt of Lotte Non-Life Insurance Co., Ltd.
JINIFOREVER 2ND CO., LTD.	60,500	2018-02-14	Future freight receivables of KOREAN AIR LINES CO.,LTD
FLOATIONG 1 st CO.,LTD	15,200	2016-09-30	Floating island loan.
HI MARINE-H Securitized 1 st CO., LTD	47,700	2018-09-18	China's HNA Group new building bulk ship financing
HI MARINE-H Securitized 2 nd CO., LTD	23,500	2018-12-13	China's HNA Group new building bulk ship financing
HI-SEJONG 1 st CO., LTD	51,000	2018-11-26	Sejong-city Residential Complex Housing Project
BDSF 10 th CO., LTD	13,100	2018-04-04	Magok District C2, C3 BL Office, Commercial building Construction Project
	<u>940,800</u>		
Unsecured loan commitment	Cheongju Technopolis Co., Ltd.	20,000	Cheongju Industrial Complex land development project
		<u>20,000</u>	
	₩	<u><u>960,800</u></u>	

(10) HI GOLD OCEAN KMARIN NO.11 SHIP INVESTMENT COMPANY entered into a currency interest swap contract for ship building and chartering with KEB Hana Bank. When HI GOLD OCEAN KMARIN NO.11 SHIP INVESTMENT COMPANY pays settlement amount to KEB Hana Bank upon termination of a contract, HI GOLD OCEAN KMARIN NO.11 SHIP INVESTMENT COMPANY will be able to get a loan from banks. If these loans are executed, the Group entered into a guarantee contract, which ensures that it will be able to borrow up to ₩40,000 million.

(11) The Group entered into a stock purchase agreement with Busan Bank, which is an investment trust company of Hyundai Ship Private Fund 2, on December 28, 2012. The Group, pursuant to the agreement, sold stocks of HI GOLD OCEAN KMARIN No. 8 Ship Investment Company (7,788,229 shares of common stock) in January 2014. In connection with this transaction, the Group made a beneficiary contract with Hanwha Life Insurance Co., Ltd. on December 27, 2012, retaining the right of first refusal to purchase a beneficiary certificate of Hyundai Ship Private Fund 2, within an exercise period and amount of contracted price for sale. The Group also entered into a guarantee contract to ensure its ability to pay the difference between the contracted price for sale and the actual price, should Hanwha Life Insurance Co., Ltd. sells this beneficiary certificate to a third parties for less than the contracted price.

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44. Commitments and Contingencies, Continued

- (12) The Group entered into convertible loan agreements with ship owners in Liberia. As of December 31, 2015, the loan balance is USD 71,000 thousand. The Group has entered into offsetting contracts with ship owners in Liberia and ship owners in Panama regarding to agreements above in January 2016, and the Group plans to withdraw USD 19,000 thousand as early repayment from ship owners in Liberia and loan USD 52,000 thousand to ship owner in Panama newly.
- (13) The Group has received notice of results for tax audit from National Tax Service on October 23, 2015, and the Group plans to file appeals to tax tribunal and request review of the legality before taxation regarding to ₩126,104 million out of notified tax amount from the tax audit. Hyundai Samho Heavy Industries Co., Ltd, one of subsidiaries, also received notice of results for tax audit from Gwangju Regional Tax Office on October 30, 2015, and has filed appeals to tax tribunal regarding to ₩2,835 million out of notified tax amount from the tax audit as of December 31, 2015.

45. Litigations

- (1) The National Tax Service imposed additional income tax amounting to ₩107,600 million on March 27, 2006. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was experiencing a foreign currency exchange crisis in the late 1990s. The National Tax Service ruled this capital increase to be unfair financial support for the insolvent affiliate. The Group's appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Group filed administrative litigation. However, the Group lost the first trial on January 5, 2011 and appealed on January 25, 2011. In relation to the intermediate appeal, the Group partially won the litigation on February 15, 2013 for the settlement of the claim amounting to ₩52,700 million. However, the Group and the National Tax Service did not accept the Court's decision and filed appeals on February 27, 2013 and February 28, 2013, respectively, and the Supreme Court dismissed defendant's appeals on September 10, 2015. There were intermediate appeals after the dismissal, the Group won the litigations totally on January 15, 2016. The National Tax Service filed appeals to the Supreme Court again on February 2, 2016, but the appeals is supposed to be cancelled because of disposition of tax imposition by the National Tax Service on March 7, 2016.
- (2) In connection with orders for submarine pipeline and equipment installation construction from PTT Public Group Limited. ("PTT") on June 25, 2011, the Group engaged a subcontractor ("Britoil") that owned a tugboat. While the tugboat was moving a barge, for reasons unknown, an existing gas pipeline owned by PTT, was damaged resulting in a gas leak. At the request of the PTT, the Group worked on recovery and repair, which was completed around October 2011, and billed PTT for the cost of repairs. PTT in turn asked for compensations for damages related to the gas leak and loss of gas. The Group and PTT were unable to reach an agreement regarding the cause of accident, amount of damages, contractual limitations of liability, and distribution of insurance proceeds. On June 22, 2012, PTT filed a lawsuit in Thai court claiming damages amounting to USD 143 million against the Group, Britoil and PTT's insurer ("Dhipaya") as a co-defendants. The Group vigorously defended itself against that claim and filed a lawsuit requesting the cost of repairs against PTT on March 28, 2013 and requesting insurance against Dhipaya on February 11, 2013. The Group and PTT are undertaking mediation on the court's guidelines, signed a MOU for the agreement on the December 29, 2014. On November 13, 2015, the Group and PTT signed contract of termination agreement, and the lawsuit has settled through agreement by submitting withdrawal of litigation agreement to Thai court on November 22, 2015.

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45. Litigations, Continued

- (3) On January 16, 2009, the Group entered into a longtime agreement to buy polysilicon with Woongjin Polysilicon Co., Ltd. ("WPC"), and paid USD 91 million in advance. WPC halted facilities operation without any notice, and creditor of WPC declared them in default on October 17, 2012. The Group gave notice of the cancellation of a contract to WPC on January 25, 2013, and requested refund of prepaid payment to Seoul guarantee insurance company ("SGI") that guaranteed refund the repaid payment on February 7, 2013, but SGI did not accepted request for payment. The Group filed a lawsuit in Seoul Central District Court claiming guarantee insurance amounting to USD 91 million against SGI on April 5, 2013. The Group won the first trial on May 1, 2014 and WPC, a supplementary participant of defendant, filed appeal on May 20, 2014, but the Group won the second trial in Seoul High Court on July 17, 2015. WPC filed appeal to the Supreme Court on August 3, 2015, but the Supreme Court dismissed the appeal on January 14, 2016, finally, the judgment of second trial had been settled.
- (4) Hyundai (Jiangsu) Construction Machinery Co., Ltd ("HJCM"), a subsidiary to import construction equipment from Parent company, paid corporate income tax amounting to approximately CNY 63 million to tax authority in Changzhou, Jiangsu, China related to transfer pricing in 2014. Changlin Corp. with 40% shares of HJCM claimed that the Group had gotten unjust profit amounting to CNY 496 million through the transactions based on the tax payment, therefore, Changlin Corp. filed appeal to claim to return the unjust profit on August 17, 2015. HHI China Investment Co., Ltd. and HJCM received duplicate of a complaint, and the Group has not received yet as of December 31, 2015. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.
- (5) The Fair Trade Commission imposed fines on two LPG importers and four domestic oil refinery companies including the Group for alleged collusive price-fixing on LPG prices from January 1, 2003 to December 31, 2008. A fine of ₩26,300 million was imposed on the Group, which it paid on June 29, 2010 and recognized as expense in the same year. However, the Group appealed to the Fair Trade Commission decision to Seoul High Court in May 2010. After losing the second trial, the Group appealed to the Supreme Court, where the case is currently pending. Additionally, 117,624 private taxi drivers and others jointly filed a lawsuit against four domestic oil refinery companies including the Group and two LPG importers claiming damages of ₩12,400 million based on the Fair Trade Commission's decision. The case is currently pending. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.
- (6) Hankook Shell Oil Co., Ltd. filed litigation in Seoul Central District Court in February 2012 against the Group, amounting to ₩14,800 million, for damages for contamination cleanup costs due to fuel spills at the Group's refinery on the site of the Hankook Shell Oil Co., Ltd. The case is currently pending. The Group did not recognize provision related to lawsuit on the consolidated financial statements because the amount of provision cannot be reliably estimated as of December 31, 2015.
- (7) The Seoul Customs concluded that a part of a customs refund of crude oil imports is unjust. They imposed customs on the Group amount to ₩41,600 million in 2013, which was recognized as expenses in the same year. The Group filed litigation in Tax Tribunal in December 2013, for canceling the imposed customs. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.
- (8) Korea National Oil Corporation ("KNOC") imposed a fine amounting to ₩9,700 million in regards to the refund of the excessive tax on oil imports. The Group filed litigation seeking the revocation of the administrative fine order to by KNOC. Suwon District Court ruled in favor of the Group in 2013, and KNOC appealed. Additionally, the Group charged refund amounting to ₩ 3,100 million to KNOC, but it has been denied. Regarding to this, the Group filled litigation in Suwon District Court in January, 2014. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.

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45. Litigations, Continued

- (9) The Defense Acquisition Program Administration (“DAPA”) offset to payment of oil amounting to ₩9,300 million on the Group, for alleged collusive bidding for the supply of military fuel. With regard to the redemption, the Group filed a lawsuit against DAPA for non-payment of oil amounting to ₩9,300 million in December 2012. The Group won the first and second trial on January 10, 2014 and July 1, 2015, respectively, and the judgment had been settled on August 8, 2015.
- (10) Although the Company and Hyundai Mipo Dockyard Co., Ltd. partially lost the first trial of ordinary wage lawsuit (amounting to ₩600 million against Hyundai Heavy Industry Co., Ltd. and ₩200 million against Hyundai Mipo Dockyard Co., Ltd.) on February 12, 2015, the Company and Hyundai Mipo Dockyard Co., Ltd. entirely won the second trial of the lawsuit on January 13, 2016, since that the holiday bonuses (100% of base pay) out of total bonuses (800% of base pay) is not considered as ordinary wage, and the rest of bonuses (700% of base pay) is also unable to be claimed because it could cause significant difficulties in business performance. The plaintiff filed appeals to the Supreme Court on January 28, 2016. Currently, the impact on the Group’s consolidated financial statements, if any, cannot be reliably estimated. The Hyundai Samho Heavy Industries Co., Ltd. was also named as a defendant for ordinary wage lawsuit with a claim of ₩86,600 million. The Hyundai Samho Heavy Industries Co., Ltd. won three lawsuits of first trial litigation on January 15, 2016, and got obligation to pay wage (amounting to ₩ 346 thousand) as a result of partially winning on one lawsuit. One of plaintiffs filed appeal to Gwangju High Court (estimated additional payment: ₩ 13 million) on February 11, 2016, currently, the impact on the Group’s consolidated financial statements, if any, cannot be reliably estimated.
- (11) The Group entered into semi-submersible rig shipbuilding agreement with Bollsta Dolphin (“Ship-owner”), a subsidiary of Fred Olsen Energy, on May 25, 2012, and Fred Olsen Energy provided a performance bond. However, in shipbuilding process, Ship-owner has disturbed process in progress in such a way that unreasonably delay for approval or request to change the initial design and regulations under agreement, and in results, the Group requested Ship-owner to resolve problems and compensate loss in April, 2015. The Group sent claim letter of USD 167,275 thousand two times on October 7, and October 20, 2015, and suggested to contract a quo agreement when second claim letter was sent. However, Ship-owner did not respond to it, so the Group initiated the LMAA (London Maritime Arbitrators Association) arbitration on October 22, 2015. Meanwhile, Ship-owner notified the Group of cancellation of the agreement and claimed to refund advances (USD 186,390 thousand) on October 27, 2015, and, the Group applied additional arbitration. The arbitral tribunal is scheduled to carry out combined examination about those arbitration claimed in October and November, 2015. Currently, the impact on the Group’s consolidated financial statements, if any, cannot be reliably estimated.
- (12) The Group entered into semi-submersible rig shipbuilding agreement with Seadrill Rigel (Changed into Seadrill Mirea Ltd., “Ship-owner”), a subsidiary of Seadrill, on May 25, 2012, and Seadrill provided a performance bond. However, in shipbuilding progress, additional construction process incurred by the identification of defect in the model adopted by ship owners and changes of contract, and in results, the Group claimed to compensate additional construction cost amounting to USD 90,552 thousand to Ship-owner two times in 2015. Regardless of the claim for additional construction cost, the Group completed construction and sea trial in August, 2015. However, Ship-owner notified the Group of cancellation of the agreement and claimed to refund advances (USD 198,719 thousand, including interest amount) due to delays in contractual delivery. The Group initiated LMAA arbitration related to unfair contract cancellation request by Ship-owner on October 12, 2015. Currently, the impact on the Group’s consolidated financial statements, if any, cannot be reliably estimated.
- (13) Korea Gas Corporation filed appeals to Daegu District Court regarding to claiming compensation (amounting to ₩ 112,000 million) for damage by bidding collusion of first and second main pipe constructions which are ordered by Korea Gas Corporation. Defendants are 19 companies including the Group, and currently, the impact on the Group’s consolidated financial statements, if any, cannot be reliably estimated.

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45. Litigations, Continued

In addition to the cases mentioned above, the Group is currently a defendant in 83 lawsuits involving claims totaling: ₩164,300 million. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated. However, management of the Group believes that the ultimate outcomes will not have a significant impact on the Group's operations and financial position.

46. Related Parties

- (1) Significant transactions for the years ended December 31, 2015 and 2014 between the Company and associates or joint ventures are as follows:

(In millions of won)

	2015			
	Sales and other		Purchases and other	
	Sales	Dividends Income	Purchase of Raw materials	Others purchase
Subsidiaries:				
Hyundai Corporation	₩ 624,513	2,496	688	10,199
Wärtsilä-Hyundai Engine Company Ltd.	1,993	35,229	45,871	1
Others	15,153	200	30,756	55
	₩ 641,659	37,925	77,315	10,255

(*) Including associates and joint ventures' subsidiaries.

In addition to the above transactions, the Group has sold its entire interest in its subsidiary, Hyundai Energy & Resources Co., Ltd., to Hyundai Corporation which is a related party for ₩43,273 million.

(In millions of won)

	2014			
	Sales and other		Purchases and other	
	Sales	Dividends Income	Purchase of Raw materials	Others purchase
Subsidiaries:				
Hyundai Corporation	₩ 806,362	2,496	8,030	7,217
Wärtsilä-Hyundai Engine Company Ltd.	2,971	27,137	118,168	-
Hyundai Cosmo Petrochemical Co., Ltd.	-	-	-	137
Others	6,256	3,440	25,342	11
	₩ 815,589	33,073	151,540	7,365

(*) Including associates and joint ventures' subsidiaries.

- (2) Outstanding balances as of December 31, 2015 and 2014 between the Company and associates or joint ventures are as follows:

(In millions of won)

	2015			
	Trade and other receivables		Trade and other payables	
	Trade Receivable	Other receivables	Trade Payables	other payables
Subsidiaries:				
Wärtsilä-Hyundai Engine Company Ltd.	₩ -	16,771	1,491	239
Others	4,367	91	-	11,848
	₩ 4,367	16,862	1,491	12,087

(*) Including associates and joint ventures' subsidiaries.

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46. Related Parties, Continued

- (2) Outstanding balances as of December 31, 2015 and 2014 between the Company and associates or joint ventures are as follows, continued

(In millions of won)

	2014			
	Trade and other receivables		Trade and other payables	
	Trade Receivable	Other receivables	Trade Payables	other payables
Subsidiaries:				
Hyundai Corporation	₩ 265,391	1,665	6,451	37,615
Wärtsilä-Hyundai Engine Company Ltd.	540	12,135	-	-
Others	491	661	1,644	11,395
	₩ <u>266,422</u>	<u>14,461</u>	<u>8,095</u>	<u>49,010</u>

(*) Including associates and joint ventures' subsidiaries.

- (3) Significant transactions for the years ended December 31, 2015 and 2014 between subsidiaries and associates or joint ventures are as follows:

(In millions of won)

Subsidiaries	Associates and joint ventures	2015		
		Sales and other	Raw materials purchase	Purchases and other Others purchase
Hyundai Samho Heavy Industries Co., Ltd.	Hyundai Corporation	₩ 3	-	26
	Wärtsilä-Hyundai Engine Company Ltd.	22	59,088	-
Hyundai Oilbank Co., Ltd.	New Korea Country Club	41	-	-
	Hyundai Corporation	300,120	166	130
	Wärtsilä-Hyundai Engine Company Ltd.	1,112	-	-
	Hyundai Cummins Engine Company	160	-	-
	Hyundai Cosmo Petrochemical Co., Ltd.	1,193,427	766,879	11
Hyundai and Shell Base Oil Co., Ltd.	Hyundai Corporation	1,458	-	-
Hyundai Venture Investment Corporation	KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	173	-	-
	KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	483	-	-
	Hyundai Agro-Bio Fund I	250	-	-
	Hyundai Youth Fund 1	215	-	-
	Hyundai Venture Investment corp. hydrogen fund	148	-	-
HI Investment & Securities Co., Ltd.	KoFC-Partners Pioneer Champ 2011-1 Investment Fund	745	-	-
Hyundai Oilbank (Shanghai) Co., Ltd.	HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	310	-	-
HI Asset Management Co., Ltd.	Hyundai Cosmo Petrochemical Co., Ltd.	-	120,991	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	BMC Hyundai S.A.	83,274	3,572	-
Hyundai Heavy Industries Co. Bulgaria	Hyundai Corporation	126	-	-
		₩ <u>1,582,067</u>	<u>950,696</u>	<u>167</u>

(*) Including associates and joint ventures' subsidiaries.

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46. Related Parties, Continued

(3) Significant transactions for the years ended December 31, 2015 and 2014 between subsidiaries and associates or joint ventures are as follows, continued:

(In millions of won)

Subsidiaries	Associates and joint ventures		2014		
			Sales and other	Raw materials purchase	Others purchase
Hyundai Samho Heavy Industries Co., Ltd.	Hyundai Corporation	₩	3	90	-
	Wärtsilä-Hyundai Engine Company Ltd.		193	66,260	-
Hyundai Mipo Dockyard Co., Ltd.	Hyundai Corporation		-	-	150
Hyundai Oilbank Co., Ltd.	New Korea Country Club		106	-	-
	Hyundai Merchant Marine Co., Ltd.		33,600	-	14,562
	Hyundai Corporation		444,160	19,275	-
	Wärtsilä-Hyundai Engine Company Ltd.		1,542	-	-
	Hyundai Cummins Engine Company		333	-	-
	Hyundai Cosmo Petrochemical Co., Ltd.		1,844,634	1,154,289	2
Hyundai Energy & Resources Co., Ltd.	Hyundai Corporation		1,866	-	-
Hyundai Venture Investment Corporation	KoFC-HVIC Pioneer Champ 2010-11 Venture Fund		197	-	-
	KoFC-HVIC Pioneer Champ 2011-7 Venture Fund		693	-	-
	Hyundai Agro-Bio Fund I		12	-	-
Hyundai Oil Singapore Pte. Ltd.	Hyundai Corporation		173,669	29,431	-
Hyundai Oilbank (Shanghai) Co., Ltd.	Hyundai Cosmo Petrochemical Co., Ltd.		-	153,574	-
Hyundai Heavy Industries Co. Bulgaria	Hyundai Corporation		30	237	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	BMC Hyundai S.A.		194,382	136	-
Hyundai Heavy Industries Brasil - Real Estate Developments	BMC Hyundai S.A.		498	-	-
		₩	2,695,918	1,423,292	14,714

(*) Including associates and joint ventures' subsidiaries.

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46. Related Parties, Continued

- (4) Outstanding balances as of December 31, 2015 and 2014 between subsidiaries and associates or joint ventures are as follows:

(In millions of won)

Subsidiaries	Associates and joint ventures	2015			
		Trade and other receivables		Trade and other payables	
		Trade Receivable	Other receivables	Trade Payables	other payables
Hyundai Samho Heavy Industries Co., Ltd.	Wärtsilä-Hyundai Engine Company Ltd.	₩ 2	-	-	-
Hyundai Oilbank Co., Ltd.	Wärtsilä-Hyundai Engine Company Ltd.	73	-	-	-
	Hyundai Cosmo Petrochemical Co., Ltd.	92,016	15	19,808	1
Hyundai Venture Investment Corporation	KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	-	1,373	-	-
	KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	-	483	-	-
	Hyundai Agro-Bio Fund I	-	63	-	-
	Hyundai Youth Fund 1	-	125	-	-
	Hyundai Venture Investment corp. hydrogen fund	-	80	-	-
Hyundai Oilbank (Shanghai) Co., Ltd.	Hyundai Cosmo Petrochemical Co., Ltd.	-	-	13,696	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	BMC Hyundai S.A.	112,250	-	-	-
		₩ 204,341	2,139	33,504	1

(*) Including associates and joint ventures' subsidiaries.

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46. Related Parties, Continued

(4) Outstanding balances as of December 31, 2015 and 2014 between subsidiaries and associates or joint ventures are as follows, continued:

(In millions of won)

Subsidiaries	Associates and joint ventures	2014			
		Trade and other receivables		Trade and other payables	
		Trade Receivable	Other receivables	Trade Payables	other payables
Hyundai Samho Heavy Industries Co., Ltd.	Hyundai Corporation	₩ -	26	-	193
	Wärtsilä-Hyundai Engine Company Ltd.	18	13,015	-	-
Hyundai Oilbank Co., Ltd.	New Korea Country Club	7	-	-	-
	Hyundai Corporation	27,372	2,116	-	39
	Hyundai Cummins Engine Company	35	-	-	-
	Hyundai Cosmo Petrochemical Co., Ltd.	13,276	10	74,461	-
Hyundai Venture Investment Corporation	KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	-	1,403	-	-
	KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	-	169	-	-
	Hyundai Agro-Bio Fund I	-	12	-	-
Hyundai Oilbank (Shanghai) Co., Ltd.	Hyundai Cosmo Petrochemical Co., Ltd.	-	-	5,039	-
Hyundai Heavy Industries Co. Bulgaria	Hyundai Corporation	-	-	226	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	BMC Hyundai S.A.	118,579	-	-	-
Hyundai Heavy Industries Brasil - Real Estate Developments	BMC Hyundai S.A.	70	-	-	-
		₩ 159,357	16,751	79,726	232

(*) Including associates and joint ventures' subsidiaries.

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46. Related Parties, Continued

- (5) Details of guarantees between the Company, subsidiaries and associates and joint ventures as of December 31, 2015 are as follows:

(In thousands of foreign currency)

<u>Guarantee provider</u>	<u>Guarantee recipient</u>	<u>Provider</u>	<u>Type of guarantees</u>	<u>Currency</u>	<u>Guaranteed Amount</u>
Hyundai Oilbank Co., Ltd.	Hyundai Cosmo Petrochemical Co., Ltd.	Mizuho Corporate Bank Ltd,	Payment	USD	30,000

- (6) Details of guarantee which the Group provided for the related parties are as follows:

(In millions of won)

<u>Related parties</u>	<u>Pledged asset</u>	<u>Book value</u>	<u>Amount</u>	<u>Provider</u>
Pyeongchang wind power Co., Ltd.	Investments in associates – Pyeongchang wind power Co., Ltd.	₩ 3,129	79,200	Woori bank and others

- (7) Compensation for key management of the Group for the years ended December 31, 2015 and 2014 is ₩18,342 million and ₩21,868 million, respectively. Key management is defined as directors and internal auditors who have important roles and responsibilities involving the planning, operation and control of the Group.

47. Shares in Non-consolidated Structured Companies

- (1) Non-consolidated structured companies is taking into account the nature, purpose, activities of the structured entity and how the structured entity is financed, entered into such a structured asset-backed security, structured finance, investment fund and trust agreement with structured company. Shares in non-consolidated structured company fails to retain its dominance pursuant to K-IFRS NO.1110 are held by the Group is classified as asset-backed security, structured finance and investment fund according to the nature and purpose of the structured company, the nature of the equity and risk is as follows :

<u>Nature of structured company</u>	<u>Purpose and Activities</u>	<u>Main financing method</u>
Asset-backed security	Financing through asset-backed security and securitization	Issue ABCP
Structured finance	Real estate development project(including Social Overhead Capital)	Investment and borrowing
Investment fund and trust	Asset management and distribution	Issue beneficiary certificates

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47. Shares in Non-consolidated Structured Companies, Continued

- (2) The carrying amount of the assets and liabilities recognized in the line items of the consolidated financial statements and the Group's maximum exposure to loss from its interests in unconsolidated structured entities.

(In millions of won)

	<u>Asset-based security</u>	<u>Structured finance</u>	<u>Investment fund and trust</u>	<u>Total</u>
Asset				
Security	₩ -	250	307,721	307,971
Investment in associates	-	-	12,486	12,486
	-	250	320,207	320,457
Off balance account				
Purchase agreement	1,142,400	-	40,000	1,182,400
Maximum amount of exposure	<u>1,142,400</u>	<u>250</u>	<u>360,207</u>	<u>1,502,857</u>
A method to determine the maximum exposure	Purchase agreement, Lending firm commitment	Book value	Book value and payment guarantee	