

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate 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 separate financial statements of Hyundai Heavy Industries, Inc. (the "Company"), which comprise the separate statements of financial position as of December 31, 2015 and 2014, the separate 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 Separate Financial Statements*

Management is responsible for the preparation and fair presentation of these separate 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 separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2015 and 2014 and its separate financial performance and its separate 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 separate 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 separate 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.  
 Separate Statements of Financial Position  
 As of December 31, 2015 and 2014

(In thousands of won)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
Cash and cash equivalents	4,38,39	₩ 1,332,253,032	1,407,943,949
Short-term financial assets	6,7,38,39	149,700,000	149,731,816
Trade and other receivables	8,30,38,39,42	3,504,975,622	2,965,451,971
Due from customers for contract work	8,30,38,39	4,017,527,639	4,706,154,739
Inventories	9	2,621,567,880	3,111,765,221
Derivative assets	24,38,39	11,924,137	101,394,184
Firm commitment assets	24	207,722,591	59,425,040
Other current assets	10	1,541,983,897	2,276,862,547
<b>Total current assets</b>		<u>13,387,654,798</u>	<u>14,778,729,467</u>
Investments in subsidiaries, associates and joint ventures	11,12,13,42	6,219,323,163	6,315,714,090
Long-term financial assets	6,7,15,38,39	385,522,655	1,052,224,824
Long-term trade and other receivables	8,30,38,39,42	241,282,584	294,797,046
Investment property	16	394,289,135	410,791,189
Property, plant and equipment	17	8,063,522,143	8,255,085,223
Intangible assets	18	320,933,442	365,622,486
Derivative assets	24,38,39	2,521,814	16,383,248
Firm commitment assets	24	210,208,415	85,793,200
Deferred tax assets	35	959,491,519	424,218,092
Other non-current assets	10,40	31,066	-
<b>Total non-current assets</b>		<u>16,797,125,936</u>	<u>17,220,629,398</u>
<b>Total assets</b>		<u>₩ 30,184,780,734</u>	<u>31,999,358,865</u>

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.  
 Separate 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>
<b>Liabilities</b>			
Short-term financial liabilities	19,21,38,39,40	₩ 3,608,630,788	3,643,119,149
Trade and other payables	20,38,39,42	3,366,361,634	3,686,939,733
Advances from customers		620,639,833	756,823,764
Due to customers for contract work	30	3,971,292,760	5,257,296,786
Derivative liabilities	24,38,39	313,438,581	145,513,550
Firm commitment liabilities	24	6,227,236	63,740,551
Income tax payable		-	665,762
<b>Total current liabilities</b>		<u>11,886,590,832</u>	<u>13,554,099,295</u>
Long-term financial liabilities	19,21,24,38,39,40	4,619,045,403	3,657,384,068
Long-term trade and other payables	20,38,39,42	11,080,876	11,581,151
Liabilities for defined benefit plans	22	433,727,355	442,146,969
Long-term provisions	23	644,244,345	460,316,383
Derivative liabilities	24,38,39	215,894,355	90,070,108
Firm commitment liabilities	24	2,408,741	10,556,077
<b>Total non-current liabilities</b>		<u>5,926,401,075</u>	<u>4,672,054,756</u>
<b>Total liabilities</b>		<u>17,812,991,907</u>	<u>18,226,154,051</u>
<b>Equity</b>			
Common stock	25	380,000,000	380,000,000
Capital surplus	25	1,057,927,830	1,044,516,633
Hybrid bonds	26	428,589,000	428,589,000
Capital adjustments	27	(966,932,733)	(1,400,454,947)
Accumulated other comprehensive income	24,28	85,255,452	306,094,650
Retained earnings	29	11,386,949,278	13,014,459,478
<b>Total equity</b>		<u>12,371,788,827</u>	<u>13,773,204,814</u>
<b>Total liabilities and equity</b>		<u>₩ 30,184,780,734</u>	<u>31,999,358,865</u>

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.  
 Separate 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	24,30,42	₩ 24,472,344,053	23,463,461,064
Cost of sales	9,18,24,32,42	<u>24,386,489,137</u>	<u>24,053,489,027</u>
<b>Gross profit (loss)</b>		85,854,916	(590,027,963)
Selling, general and administrative expenses	18,31,32,38	<u>1,762,244,404</u>	<u>1,333,222,550</u>
<b>Operating loss</b>		(1,676,389,488)	(1,923,250,513)
Finance income	24,33,38	1,203,241,214	827,640,101
Finance costs	24,33,38	1,676,371,427	1,242,257,519
Other non-operating income	24,34	766,761,058	425,642,895
Other non-operating expenses	24,34	<u>697,837,409</u>	<u>424,926,390</u>
<b>Loss before income taxes</b>		(2,080,596,052)	(2,337,151,426)
Income tax benefit	35	<u>(532,538,728)</u>	<u>(582,474,217)</u>
<b>Loss for the year</b>		₩ (1,548,057,324)	(1,754,677,209)
<b>Other comprehensive income (loss)</b>			
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Change in fair value of available-for-sale financial assets		₩ (263,187,034)	(216,563,440)
Effective portion of changes in fair value of cash flow hedges		<u>42,347,836</u>	<u>(29,547,280)</u>
<b>Total items that are or may be reclassified subsequently to profit or loss</b>		<u>(220,839,198)</u>	<u>(246,110,720)</u>
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gains and losses		<u>(59,160,343)</u>	<u>(111,623,421)</u>
<b>Total items that will not be reclassified to loss</b>		<u>(59,160,343)</u>	<u>(111,623,421)</u>
<b>Other comprehensive loss for the year, net of income tax</b>	22,24,28,35,38	<u>(279,999,541)</u>	<u>(357,734,141)</u>
<b>Total comprehensive loss for the year</b>		₩ (1,828,056,865)	(2,112,411,350)
<b>Loss per share</b>	36		
Basic and diluted loss per share (in won)		₩ (25,159)	(28,641)

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.  
 Separate 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	Gain and loss on valuation of available-for- sale financial assets	Gain and loss on valuation of derivatives	Retained earnings	Total equity
<b>Balance at January 1, 2014</b>	₩ 380,000,000	1,044,516,633	-	(1,400,454,947)	581,649,402	(29,444,032)	15,004,044,455	15,580,311,511
<b>Total comprehensive income (loss) for the year</b>								
Loss for the year	-	-	-	-	-	-	(1,754,677,209)	(1,754,677,209)
Change in fair value of available-for- sale financial assets	-	-	-	-	(216,563,440)	-	-	(216,563,440)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	(29,547,280)	-	(29,547,280)
Actuarial gains and losses	-	-	-	-	-	-	(111,623,421)	(111,623,421)
<b>Transactions with owners of the Company, recognized directly in equity</b>								
Dividends	-	-	-	-	-	-	(122,576,880)	(122,576,880)
Issue of hybrid bonds	-	-	428,589,000	-	-	-	-	428,589,000
Interest for hybrid bonds	-	-	-	-	-	-	(707,467)	(707,467)
<b>Balance at December 31, 2014</b>	₩ <u>380,000,000</u>	<u>1,044,516,633</u>	<u>428,589,000</u>	<u>(1,400,454,947)</u>	<u>365,085,962</u>	<u>(58,991,312)</u>	<u>13,014,459,478</u>	<u>13,773,204,814</u>
<b>Balance at January 1, 2015</b>	₩ 380,000,000	1,044,516,633	428,589,000	(1,400,454,947)	365,085,962	(58,991,312)	13,014,459,478	13,773,204,814
<b>Total comprehensive income (loss) for the year</b>								
Loss for the year	-	-	-	-	-	-	(1,548,057,324)	(1,548,057,324)
Change in fair value of available-for- sale financial assets	-	-	-	-	(263,187,034)	-	-	(263,187,034)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	42,347,836	-	42,347,836
Actuarial gains and losses	-	-	-	-	-	-	(59,160,343)	(59,160,343)
<b>Transactions with owners of the Company, recognized directly in equity</b>								
Disposal of treasury stock	-	13,411,197	-	433,522,214	-	-	-	446,933,411
Interest for hybrid bonds	-	-	-	-	-	-	(20,292,533)	(20,292,533)
<b>Balance at December 31, 2015</b>	₩ <u>380,000,000</u>	<u>1,057,927,830</u>	<u>428,589,000</u>	<u>(966,932,733)</u>	<u>101,898,928</u>	<u>(16,643,476)</u>	<u>11,386,949,278</u>	<u>12,371,788,827</u>

See accompanying notes to the separate financial statements.



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

(In thousands of won)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities</b>			
Loss for the year		₩ (1,548,057,324)	(1,754,677,209)
Adjustments		706,276,536	3,150,554,707
Cash generated from operations	37	(841,780,788)	1,395,877,498
Interest received		26,508,929	41,524,469
Interest paid		(193,031,025)	(185,979,594)
Dividends received		68,314,243	89,440,674
Income taxes received (paid)		82,956,848	(68,867,741)
<b>Net cash provided by (used in) operating activities</b>		<u>(857,031,793)</u>	<u>1,271,995,306</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of short-term financial assets		229,700,000	161,855,224
Proceeds from sale of investments in subsidiaries, associates and joint ventures		194,367,045	105,878,509
Proceeds from sale of long-term financial assets		507,552,640	17,670,003
Proceeds from collection of long-term other receivables		4,892,900	5,287,635
Proceeds from sale of property, plant and equipment		24,885,553	3,011,854
Proceeds from sale of intangible assets		20,967,795	3,894,285
Acquisition of short-term financial assets		(229,700,000)	(161,855,224)
Acquisition of investments in subsidiaries, associates and joint ventures		(309,712,675)	(134,229,857)
Acquisition of long-term financial assets		(520,550)	(959,220)
Acquisition of long-term other receivables		(27,708,698)	(3,826,020)
Acquisition of property, plant and equipment		(471,600,289)	(641,461,840)
Acquisition of intangible assets		(45,235,505)	(58,727,926)
<b>Net cash used in investing activities</b>		<u>(102,111,784)</u>	<u>(703,462,577)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term financial liabilities		8,518,932,436	8,452,148,034
Proceeds from long-term financial liabilities		2,824,933,306	2,768,632,800
Issue of hybrid bonds		-	428,589,000
Disposal of treasury stock		127,520,897	-
Repayment of short-term financial liabilities		(10,177,083,492)	(11,419,060,981)
Repayment of long-term financial liabilities		(390,000,000)	(1,469)
Interest for hybrid bonds paid		(21,000,000)	-
Dividends paid		-	(122,576,880)
<b>Net cash provided by financing activities</b>		<u>883,303,147</u>	<u>107,730,504</u>
Effects of exchange rate changes on cash and cash equivalents		149,513	1,006,948
<b>Net increase (decrease) in cash and cash equivalents</b>		<u>(75,690,917)</u>	<u>677,270,181</u>
Cash and cash equivalents at January 1		1,407,943,949	730,673,768
<b>Cash and cash equivalents at December 31</b>		<u>₩ 1,332,253,032</u>	<u>1,407,943,949</u>

See accompanying notes to the separate financial statements.

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

**1. Reporting Entity**

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.

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. Basis of Preparation**

**(1) Statement of compliance**

The separate 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.

These financial statements are separate financial statements in accordance with K-IFRS 1027, 'Separate Financial Statements' presented by a parent, an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost.

The separate 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 separate 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 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 separate 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 Company operates.

**(4) Use of estimates and judgments**

The preparation of the separate 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.

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

**2. Basis of Preparation, Continued**

(i) Judgments

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

- Note 13, 14 – Classification of joint arrangement; and
- Note 16 – Classification of investment property

(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:

- Notes 10, 11, 12, 13, 15, 17 and 18 – Impairment test: key assumptions underlying recoverable amounts, including the recoverability of other current assets, investments in subsidiaries, investments in associates, investments in joint venture, available-for-sale financial assets, property and intangible assets;
- Note 22 – Measurement of defined benefit obligations: key actual assumptions;
- Notes 23, 40 and 41 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 30 – Revenue recognition in proportion to the stage of completion, the estimates of total contract costs; and
- Note 35 – Measurement of deferred tax

(iii) Measurement of fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company 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 is Audit Committee.

When measuring the fair value of an asset or a liability, the Company 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 Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

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

**2. Basis of Preparation, Continued**

**(4) Use of estimates and judgments, continued**

(iii) Measurement of fair value, continued

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

- Note 15 – Available-for-sale financial assets
- Note 24 – Derivative financial instruments
- Note 39 – Financial instruments

**3. Changes in Accounting Policies**

Except for the change below, the Company has consistently applied the accounting policies set out in Note 4 to all periods presented in these separate financial statements.

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

- Employee contribution (Amendments to K-IFRS 1019 'Employee benefit')

The nature and effects of the changes are explained below.

The Company 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 Company applied the amendments retrospectively. The change in accounting policy had no impact on the separate financial statements.

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

**4. Significant Accounting Policies**

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

**(1) Subsidiaries and Equity-accounted investees in the separate financial statements**

These separate financial statements are prepared and presented in accordance with K-IFRS 1027, 'Separate Financial Statements'. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS 1027. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

**(2) 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 Company 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>	<b>2015</b>	<b>2014</b>
Cash	₩ 212	300
Current deposit	3,673	6,940
Ordinary deposit	6,524	7,153
Others	1,321,844	1,393,551
	₩ 1,332,253	1,407,944

**(3) 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.

**(4) Non-derivative financial assets**

The Company 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 Company recognizes financial assets in the statement of financial position when the Company 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.

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

**4. Significant Accounting Policies, Continued**

**(4) Non-derivative financial assets, continued**

- (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 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 Company 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 Company 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 Company is recognized as a separate asset or liability.
- If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company 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 statement of financial position only when the Company 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**

**(5) 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 Company holds forward exchange contracts to manage foreign exchange risk. The Company 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 Company 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 statement of comprehensive income.

The Company 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**

**(5) 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.

**(6) 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 Company on terms that the Company 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 Company 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 Company 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**

**(6) 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 shall be reversed, with the amount of the reversal recognized in profit or loss.

**(7) 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 Company's assets are as follows:

	Useful lives (years)
Buildings	20~40
Structures	20~40
Machinery	5~15
Ships	15, 25
Vehicles	5~10
Tools, furniture and fixtures	3~20

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**

**(8) 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
Other intangible assets	20, 40
Memberships	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 Company 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.

**(9) Government grants**

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

Government grants whose primary condition is that the Company 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 Company for expenses incurred are recognized as other income (government grants) in profit or loss over the periods in which the Company recognizes the related costs as expenses.

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**4. Significant Accounting Policies, Continued**

**(10) Investment property**

Property held for the purpose of earning rentals, benefiting from capital appreciation or both is classified as investment property. Investment property is measured initially 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 Company 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 on a straight-line basis over the following estimated useful lives:

	Useful lives (years)
Buildings	20~40
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.

**(11) Impairment of non-financial assets**

The carrying amounts of the Company'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. 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.

Any impairment identified at the CGU level will reduce the carrying amount of the assets in the CGU on a pro rata basis. 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**

**(12) 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 Company'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.

**(13) Borrowing costs**

The Company 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 Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company 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 Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company 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 Company 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 Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period. In addition, the Company capitalized borrowing costs amounting to ₩115,032 million and ₩108,111 million, applying capitalization rate of 2.48% and 2.66% for the years ended December 31, 2015 and 2014, respectively.

**(14) Non-derivative financial liabilities**

The Company 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 Company recognizes financial liabilities in the statement of financial position when the Company 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.

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**4. Significant Accounting Policies, Continued**

**(14) Non-derivative financial liabilities, continued**

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

**(15) 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 Company during an accounting period, the Company 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 Company'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 benefit plans

The Company'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 and prior periods, 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 Company, 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 Company 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 Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company 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.

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**4. Significant Accounting Policies, Continued**

**(16) Provisions**

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

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

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

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

(i) Provision for construction warranty

The Company 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.

(ii) Provision for product warranty

The Company 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.

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

**(17) Emissions rights**

The Company 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 Company 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.

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**4. Significant Accounting Policies, Continued**

**(17) Emissions rights, continued**

(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 Company is involved in the allocation of emission rights and the trading scheme from 2015. From 2015 to 2017 is the 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	964,959	940,419	921,566	2,826,944

As of December 31, 2015, there is no emission rights provided as collateral and the Company did not recognize emission rights and emission liabilities since the estimated quantity of emission 951,710 ton did not exceed free allocated emission right free of charge.

**(18) Foreign currencies**

Transactions in foreign currencies are translated to the respective functional currencies of the Company 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.

**(19) 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 Company 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 Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

(ii) Hybrid bonds

The Company 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 displayed as a part of capital.

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**4. Significant Accounting Policies, Continued**

**(20) Revenue**

Revenue from the sale of goods, rendering of services or use of the Company assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and 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.

(ii) 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.

(iii) 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.

(iv) 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.

**(21) 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 Company'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.



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**4. Significant Accounting Policies, Continued**

**(22) 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 Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company 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 Company 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 Company 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.

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 Company 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.

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**4. Significant Accounting Policies, Continued**

**(23) Earnings per share**

The Company 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 Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

**(24) Operating segments**

The Company discloses information related to its operating segments on its separate financial statements in accordance with K-IFRS 1108, 'Operating Segments'.

**(25) 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 Company for annual periods beginning after January 1, 2015, and the Company has not early adopted them. Management is in the progress of evaluating the impact of the amendments on the Company's separate 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.

(iii) K-IFRS 1027 'Separate Financial Statements'

Amendments to K-IFRS 1027 introduced equity accounting as a third option in the entity's separate financial statements, in addition to the existing cost and fair value options. This amendment is effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

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**5. Risk Management**

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

- Credit risk
- Liquidity risk
- Market risk

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

**(1) Financial risk management**

1) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, 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.

The Company Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

2) Credit risk

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

(i) Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company'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 Company 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 Company does not establish allowances for receivables under insurance and receivables from customers with a high credit rating. For the rest of the receivables, the Company 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.

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**5. Risk Management, Continued**

**(1) Financial risk management, continued**

2) Credit risk, continued

(ii) Investments

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

3) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The Company has historically been able to satisfy its cash requirements from cash flow from operations and debt and equity financing. To the extent that the Company does not generate sufficient cash flow from operations to meet its capital requirements, the Company may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, equity-linked and other debt securities. In addition, the Company has entered into credit line agreements with financial institutions amounting to ~~₩~~6,609,604 million and USD 24,278,479 thousand as of December 31, 2015.

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 Company'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 Company 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 Company. Generally the Company seeks to apply hedge accounting in order to manage volatility in profit or loss.

(i) Currency risk

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

The Company hedges trade receivables and trade payables denominated in a foreign currency in respect of forecasted sales and purchases. The Company 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 Company 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.

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**5. Risk Management, Continued**

**(1) Financial risk management, continued**

(ii) Other market price risk

The Company 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 are 3,303 million and 9,882 million.

**(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 Company monitors the liability to equity ratio and net borrowing to equity ratio, which the Company defines as total liabilities divided by total equity and net borrowing divided by total equity.

The Company's liability to equity ratio and net borrowing to equity ratio at the end of the reporting period are as follows:

<i>(In millions of won, except equity ratio)</i>	<b>2015</b>	<b>2014</b>
Total liabilities	₩ 17,812,992	18,226,154
Total equity	12,371,789	13,773,205
Cash and deposits (*1)	1,481,983	1,557,677
Borrowings (*2)	8,191,551	7,300,503
Liability to equity ratio	143.98%	132.33%
Net borrowing to equity ratio (*3)	54.23%	41.70%

(\*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 at the end of the reporting period are as follows.

<i>(In millions of won, except equity ratio)</i>	<b>2015</b>	<b>2014</b>
Operating loss	₩ (1,676,389)	(1,923,251)
Interest	82,844	85,746
Interest coverage ratio	(*)	(*)

(\*) Since operating loss occurred for the years ended December 31, 2015, and 2014, Interest coverage ratio have not been calculated.

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**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)

		2015		2014	
		Current	Non-current	Current	Non-current
Financial instruments	₩	149,700	30	149,700	33
Financial assets at fair value through profit or loss		-	-	32	-
Available-for-sale financial assets		-	385,493	-	1,052,192
	₩	<u>149,700</u>	<u>385,523</u>	<u>149,732</u>	<u>1,052,225</u>

**7. Restricted Financial Instruments**

Financial instruments, 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
Long-term financial instruments	KEB Hana Bank and others	₩ 30	33	Guarantee deposits for checking accounts
Short-term financial instruments	Industrial Bank Of Korea and others	130,000	-	Mortgage setting up for financial liabilities.(*)
		₩ <u>130,030</u>	<u>33</u>	

(\*) As of December 31, 2015, the Company has provided guarantees with Industrial Bank of Korea and two other banks for short-term financial liabilities amounting to ₩124,700 million and guarantee amount is ₩137,170 million

**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
<b>Trade receivables:</b>					
Trade receivables	₩	3,869,927	279,174	3,135,452	339,992
Allowance for doubtful accounts		(609,350)	(45,592)	(556,736)	(53,598)
		<u>3,260,577</u>	<u>233,582</u>	<u>2,578,716</u>	<u>286,394</u>
<b>Other receivables:</b>					
Other accounts receivable		414,249	-	570,338	-
Allowance for doubtful accounts		(199,878)	-	(190,306)	-
Accrued income		6,149	-	5,742	-
Loans		270	-	-	253
Guarantee deposits		23,609	7,701	962	8,150
		<u>244,399</u>	<u>7,701</u>	<u>386,736</u>	<u>8,403</u>
	₩	<u>3,504,976</u>	<u>241,283</u>	<u>2,965,452</u>	<u>294,797</u>

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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>
Due from customers for contract work	₩	4,017,528	4,706,501
Allowance for doubtful accounts		-	(346)
	₩	<u>4,017,528</u>	<u>4,706,155</u>

**9. Inventories**

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

(In millions of won)

		<u>2015</u>			<u>2014</u>		
		<u>Acquisition cost</u>	<u>Provision for inventory valuation</u>	<u>Carrying amount</u>	<u>Acquisition cost</u>	<u>Provision for inventory valuation</u>	<u>Carrying amount</u>
Merchandise	₩	144,386	(9,905)	134,481	132,808	(4,922)	127,886
Finished goods		215,371	(11,564)	203,807	177,097	(11,982)	165,115
Work-in-progress		911,666	(75,323)	836,343	1,263,052	(104,595)	1,158,457
Raw materials		809,747	(15,416)	794,331	910,867	(3,322)	907,545
Supplies		15,252	-	15,252	21,208	-	21,208
Materials-in-transit		637,354	-	637,354	731,554	-	731,554
	₩	<u>2,733,776</u>	<u>(112,208)</u>	<u>2,621,568</u>	<u>3,236,586</u>	<u>(124,821)</u>	<u>3,111,765</u>

The write-down of inventories to net realizable value amounting to ₩11,022 million and ₩165 million are included in cost of sales for the years ended December 31, 2015 and 2014, respectively.

**10. Other Current Assets**

Other current 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>
Advance payments	₩	849,174	-	2,015,224	-
Prepaid expenses		174,283	31	261,639	-
Others(*)		571,905	63,307	7,117	63,307
Accumulated impairment		(53,378)	(63,307)	(7,117)	(63,307)
	₩	<u>1,541,984</u>	<u>31</u>	<u>2,276,863</u>	<u>-</u>

(\*) For the year ended December 31, 2015, the Company acquired vessels under constructions due to cancellation of ship construction contract and recorded measured fair value. (Note 41)

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11. Investments in Subsidiaries

Investments in subsidiaries as of December 31, 2015 and 2014 are summarized as follows:

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2015		2014	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Hyundai Samho Heavy Industries Co., Ltd.	Korea	Shipbuilding	94.92 ₩	1,817,690	94.92 ₩	1,817,690
Hyundai Oilbank Co., Ltd.	Korea	Manufacturing of petroleum products	91.13	2,954,745	91.13	2,954,745
Hyundai Heavy Material Service	Korea	Sale and manufacture of machinery equipment for shipbuilding	100.00	122,136	100.00	122,136
KOMAS Corporation	Korea	Shipping	100.00	76,635	100.00	116,635
Hyundai Energy & Resources Co., Ltd.	Korea	Services for crude oil and natural gas mining	-	-	40.00	20,000
Ulsan Hyundai Football Club Co., Ltd.	Korea	Football club	100.00	4,913	100.00	4,913
Hotel Hyundai Co., Ltd.	Korea	Hotel operation	100.00	251,407	100.00	2,807
Hyundai Finance Corporation	Korea	Granting of credit	72.13	95,470	67.49	90,726
HHI China Investment Co., Ltd.	China	Holding company	100.00	286,425	100.00	286,425
Hyundai Financial Leasing Co., Ltd. (*1)	China	Financial and operating leases	41.26	67,403	41.26	67,403
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.(*2)	China	Sale and manufacture of wheel loaders	100.00	31,630	100.00	48,810
Hyundai-Vinashin Shipyard (*1)	Vietnam	Ship repair	10.00	9,484	10.00	9,484
Hyundai Construction Equipment India Pvt. Ltd.	India	Sale and manufacture of machinery equipment for construction	100.00	53,741	100.00	53,741
Hyundai Transformers And Engineering India Private, Ltd.	India	Sale and manufacture of transformers	100.00	227	100.00	227
Hyundai Construction Equipment Americas, Inc.	America	Sale of machinery equipment for construction	100.00	-	100.00	-
Hyundai Power Transformers USA, Inc.(*2)	America	Sale and manufacture of industrial electric equipment	100.00	81,953	100.00	86,693
Hyundai Ideal Electric Co.	America	Sale and manufacture of industrial electric equipment	100.00	25,494	100.00 ₩	25,494
PHECO Inc.	America	Design services for offshore facilities	100.00	237	100.00	237
HHI Battery CO., Ltd.(*2)	Canada	Manufacturing	100.00	-	100.00	6,410
Hyundai Heavy Industries Brasil- Real Estate Developments(*3)	Brazil	Real estate development	-	-	100.00	30,443
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment(*2,3)	Brazil	Manufacture, trade and repair of heavy equipment	98.37	99,575	97.09	122,485
Hyundai Heavy Industries Miraflores Power Plant Inc.	Panama	Manufacturing	100.00	-	100.00	-



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11. Investments in Subsidiaries, Continued

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2015		2014	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Vladivostok Business Center	Russia	Hotel operation	100.00	-	100.00	-
Hyundai Khorol Agro Ltd.	Russia	Agriculture	100.00	16,105	95.24	16,105
Hyundai Mikhailovka Agro	Russia	Agriculture	100.00	17,255	100.00	17,255
Hyundai Electrosystems Co., Ltd.(*2)	Russia	Manufacture of high-voltage circuit breakers	100.00	15,694	100.00	33,425
Hyundai Heavy Industries Europe N.V.	Belgium	Sale of machinery equipment for construction	100.00	10,322	100.00	10,322
Hyundai Heavy Industries Co. Bulgaria	Bulgaria	Sale and manufacture of transformers	99.09	46,768	99.09	46,768
Hyundai Technologies Center Hungary Kft.	Hungary	Research and development of technology	100.00	26	100.00	26
Hyundai Heavy Industries France SAS	France	Manufacturing	100.00	52	100.00	52
Jahnel-Kestermann Getriebewerke GmbH(*2)	Germany	Designing and manufacture of gearboxes	100.00	-	100.00	-
HHI MAURITIUS LIMITED	Mauritius	Manufacturing	100.00	-	100.00	-
Hyundai West Africa Limited	Nigeria	Manufacture of other transport equipment	100.00	70	100.00	70
Hyundai Arabia Company LLC.	Saudi Arabia	Industrial plant construction	70.00	-	70.00	-
Hyundai Hi-Power Service Europe B.V	Netherlands	Wholesale service for Machine and equipment.	100.00	8,689	-	-
				<u>₩ 6,094,146</u>		<u>₩ 5,991,527</u>

(\*1) As the Company and subsidiaries owns more than half of the entity directly and indirectly, the Company has determined that the Company and subsidiaries controls the entity and has classified the stock as subsidiaries.

(\*2) As of December 31, 2015, due to continuous loss and liquidation plan of the subsidiaries of Hyundai (Shandong) Heavy Industries Machinery Co., Ltd., Hyundai Power Transformers USA, Inc., HHI Battery Co., Ltd., Hyundai Heavy Industries Brasil-Manufacturing and Trading of Construction Equipment, Hyundai Electrosystems Co., Ltd. and Jahnel-Kestermann Getriebewerke GmbH, the Company recognized an impairment loss amounting to ₩78,886 million, ₩4,740 million, ₩6,410 million, ₩136,650 million, ₩17,731 million and ₩105,493 million. The Company estimated the recoverable amount of the Hyundai Power Transformers USA, Inc., Hyundai Heavy Industries Brasil-Manufacturing and Trading of Construction Equipment and Hyundai Electrosystems Co., Ltd based on value in use which is estimated by applying an after-tax discount rate of 5.9%, 13.5% and 14.2%. The Company estimated the recoverable amount of Hyundai (Shandong) Heavy Industries Machinery Co., Ltd., HHI Battery Co., Ltd. and Jahnel-Kestermann Getriebewerke GmbH based on fair value less costs to sell.

(\*3) During 2015, Hyundai Heavy Industries Brasil – Real estate developments has been consolidated into the Hyundai Heavy Industries Brasil – Manufacturing and Trading of Construction Equipment which is the Company's subsidiaries.

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**11. Investments in Subsidiaries, Continued**

The change in investments in subsidiaries for the year ended December 31, 2015 is due to the capital increase, purchase, disposal and stock exchange except for the above impairment loss.

**12. Investments in Associates**

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

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2015		2014	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
New Korea Country Club	Korea	Country club	29.00	₩ 22,870	40.00	₩ 31,545
Taebaek Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	35.00	5,299	35.00	5,299
Muju Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	45.00	5,130	45.00	5,130
Pyeongchang Wind Power Co., Ltd.(*1)	Korea	Sale and manufacture of facilities for wind power generation	23.00	3,566	23.00	3,566
Jinan Jangsu Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	32.00	128	32.00	128
Changjuk Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	43.00	5,448	43.00	5,448
Hyundai Corporation(*2)	Korea	Exporting	-	-	22.36	105,134
Daesung Win-Win Fund (*3)	Korea	Investment service in culture contents field	16.67	7,000	16.67	7,000
Qinhuangdao Shouqin Metal Materials Co., Ltd.(*4)	China	Thick plate-oriented comprehensive iron manufacturing	20.00	-	20.00	37,409
PT. Hyundai Machinery Indonesia	Indonesia	Import and wholesale of machinery equipment for construction	20.83	155	20.83	155
Hyundai Primorye Ltd.	Russia	Farmland leasing service	49.99	6,338	49.99	6,338
Hyundai Green Industries Co., W.L.L.	Kuwait	Education	49.00	992	49.00	992
				₩ 56,926		₩ 208,144

(\*1) As of December 31, 2015, the Company collateralized equity securities for Pyeongchang Wind Power Co., Ltd., which is a related party. (note 42).

(\*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.

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## 12. Investments in Associates, Continued

(\*3) As the Company and subsidiaries owns more than 20% of the entity directly and indirectly, the Company and subsidiaries has determined that the Company and subsidiaries seem to significant influence the entity and has classified the stock as associates.

(\*4) As of December 31, 2015, due to continuous loss the Company recognized an impairment loss amounting to ₩37,409 million, and the Company estimated the recoverable amount based on value in use which is estimated by applying an after-tax discount rate of 8.74%

The change in investments in associates for the year ended December 31, 2015 is due to the capital increase except for the above impairment loss.

## 13. Investments in Joint Ventures

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

(In millions of won, except percentage of ownership)

Company	Location	Particulars	2015		2014	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Wärtsilä-Hyundai Engine Company Ltd.	Korea	Manufacture, assemble and test of marine engines and parts	50.00	₩ 40,496	50.00	₩ 40,496
Hyundai Cummins Engine Company(*)	Korea	Manufacture of engines	50.00	7,181	50.00	35,775
Hyundai-Avancis Co., Ltd.(*)	Korea	Sale and manufacture of solar module	50.00	15,236	50.00	34,142
Grand China Hyundai Shipping Co., Ltd.	Hong Kong	Acquiring, renting, leasing and chartering of bulk carrier	-	-	50.00	292
BMC Hyundai S.A.	Brazil	Sale of machinery equipment for construction	30.00	5,338	30.00	5,338
				₩ 68,251		₩ 116,043

(\* ) As of December 31, 2015, due to continuous loss and liquidation plan of the subsidiaries of Hyundai Cummins Engine Company and Hyundai-Avancis Co., Ltd, the Company recognized an impairment loss amounting to ₩60,594 million and ₩18,906 million.

## 14. Joint Operation

The joint operation as of December 31, 2015 and 2014 is summarized as follows:

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

(\*1) The Company holds a significant joint operation 'FDH JV' as of and December 31, 2015 and 2014. FDH JV is a joint operation that the main purpose of arrangement is construction of Clean Fuels Project MAB2 EPC PKG ordered by Kuwait National Petroleum Company. The Company recognizes the assets and liabilities relating to its interest in a 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 Company holds a significant joint operation 'FDH JV' as of December 31, 2015. FDH JV is a joint operation that the main purpose of arrangement is construction of Al Zour Refinery Project Package 2 & 3 EPC PKG ordered by Kuwait National Petroleum Company. The Company recognizes the assets and liabilities relating to its interest in a 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, except percentage of ownership)

Company	Ownership (%)	2015		2014	
		Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
<b>Listed equity securities:</b>					
Hyundai Merchant Marine Co., Ltd.(*1)	10.78	360,634	96,741	360,634	234,240
Hyundai Motor Company (*2)	0.56	84,370	184,082	300,481	743,600
Korea Environment Technology Co., Ltd.	7.58	1,909	9,859	1,909	10,352
Hyundai Corporation(*3)	2.99	9,093	11,323	-	-
Hyundai C&F(*3)	10.11	21,139	28,257	-	-
		<u>477,145</u>	<u>330,262</u>	<u>663,024</u>	<u>988,192</u>
<b>Unlisted equity securities (*4):</b>					
Gangwon Football Club Co., Ltd.	0.01	1	-	1	-
Kuk Dong Heavy Conveyance Co., Ltd.	7.50	502	502	502	502
Daehan Oil Pipeline Corporation (*5)	6.39	14,512	32,819	14,512	33,117
Dong-A Precision Machinery Co., Ltd.	0.01	35	-	35	-
Doosan Capital Co., Ltd.	-	-	-	10,000	6,214
Bexco, Ltd.	7.96	9,460	9,460	9,460	9,460
Chonggu Co., Ltd.	0.00	188	-	188	-
Hanwha Electric Venture Fund	-	-	-	220	220
Hyundai Research Institute	14.40	1,440	1,440	1,440	1,440
Hyundai Climate Control Co., Ltd.	10.00	50	50	50	50
Hynix Semiconductor America Inc.	1.33	34,525	-	34,525	-
KC Karpovsky BV	10.00	2	-	2	-
Korea Ship Finance Co., Ltd.	2.36	200	200	200	200
Nikorma Transport Limited	11.50	11	11	11	11
Ajincartech. Inc.	0.00	3	-	3	-
OSX Construção Naval S.A.	0.20	57,498	-	57,498	-
Korea Defense Industry Association	1.74	1,500	1,500	1,500	1,500
ENOVA SYSTEMS Inc.	0.67	1,315	-	1,315	-
Kuk dong E & C	0.11	272	-	272	-
Glosil Co., Ltd.	0.01	5	-	5	-
Ksolar Co., Ltd.	2.88	232	-	232	-
		<u>121,751</u>	<u>45,982</u>	<u>131,971</u>	<u>52,714</u>
<b>Beneficiary certificates:</b>					
Korea Investment Private Korea Exim bank Carbon Special Asset Trust I (Carbon Emission Right)	7.09	876	285	2,376	772
Global ICT Fusion Fund	2.00	200	200	-	-
		<u>1,076</u>	<u>485</u>	<u>2,376</u>	<u>772</u>
<b>Investments in capital and others(*4)</b>					
		<u>8,764</u>	<u>8,764</u>	<u>10,514</u>	<u>10,514</u>
		<u>₩ 608,736</u>	<u>385,493</u>	<u>807,885</u>	<u>1,052,192</u>

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**15. Available-for-sale Financial Assets, Continued**

- (\*1) During the year ended December 31, 2015, the Company 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 its investment in Hyundai Merchant Marine Co., Ltd. would decrease from 10.78% to 0.00%. Upon issuance of the exchangeable bond, the Company deposited common stocks of Hyundai Merchant Marine Co., Ltd. in Korea Securities Depository and disposal of the stocks is restricted. Also, since the fair value of the equity securities of Hyundai Merchant Marine Co., Ltd., fell significantly below the acquisition cost, the Company recognized an impairment loss of ₩ 117,823 million for the year ended December 31, 2015.
- (\*2) During the year ended December 31, 2015, the Company disposed to ₩ 499,999 million except of disposal incidental expenses the stocks of Hyundai Motor Company partially for finance soundness (3,164,550 shares, acquisition cost of ₩ 216,111 million, carrying amount of ₩ 534,809 million).
- (\*3) 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.
- (\*4) Unless otherwise noted, the carrying amounts of unlisted equity securities were recorded at their acquisition cost since their fair values cannot be reliably measured.
- (\*5) 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.

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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	₩	213,116	197,675	410,791
Acquisition and other		370	(10,827)	(10,457)
Disposals		-	-	-
Depreciation		-	(6,045)	(6,045)
Ending balance	₩	213,486	180,803	394,289
Acquisition cost		213,486	231,649	445,135
Accumulated depreciation		-	(50,846)	(50,846)

(In millions of won)

		2014		
		Land	Buildings	Total
Beginning balance	₩	231,929	208,069	439,998
Acquisition and other		(18,813)	(4,321)	(23,134)
Disposals		-	-	-
Depreciation		-	(6,073)	(6,073)
Ending balance	₩	213,116	197,675	410,791
Acquisition cost		213,116	244,026	457,142
Accumulated depreciation		-	(46,351)	(46,351)

(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	₩	12,374	12,896
Operating and maintenance expense arising from investment property that generated rental income		8,024	7,682

(3) Fair value from investment property for the years ended December 31, 2015 and 2014 is as follows

(In millions of won)

		2015		2014	
		Book value	Fair value	Book value	Fair value
Land	₩	213,486	346,740	213,116	302,765
Buildings		180,803	285,097	197,675	276,897
	₩	394,289	631,837	410,791	579,662

The fair value of investment property was determined by external, independent appraiser, having appropriate recognized professional qualifications and experience in relation to the assessment of real estate in the Republic of Korea. The valuation is achieved by using comparison methods to obtain the economic value based on marketability of the property. The Company calculated fair value considering the standard market price after transition date in order to estimate the fair value of investment property as of December 31, 2015.

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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

(In millions of won)

	2015						
	Machinery and Construction						Total
	Land	Buildings	Structures	equipment	in-progress	Others	
Beginning balance	₩ 2,924,450	1,887,572	1,236,403	1,276,686	421,872	508,102	8,255,085
Acquisitions and other	19,262	189,806	29,167	84,808	(229,739)	388,753	482,057
Disposals	(47,031)	(125,152)	(7,861)	(5,202)	-	(7,605)	(192,851)
Depreciation	-	(67,572)	(40,823)	(183,627)	-	(176,272)	(468,294)
Impairment	-	-	-	-	(12,475)	-	(12,475)
Ending balance	₩ 2,896,681	1,884,654	1,216,886	1,172,665	179,658	712,978	8,063,522
Acquisition cost	2,896,681	2,609,783	1,655,308	3,878,634	206,713	2,400,400	13,647,519
Accumulated depreciation	-	(725,129)	(438,422)	(2,657,947)	-	(1,686,209)	(5,507,707)
Accumulated impairment	-	-	-	(48,022)	(27,055)	(1,213)	(76,290)

(In millions of won)

	2014						
	Machinery and Construction						Total
	Land	Buildings	Structures	equipment	in-progress	Others	
Beginning balance	₩ 2,895,105	1,924,915	1,234,653	1,335,069	200,506	472,262	8,062,510
Acquisitions and other	29,972	30,904	42,112	134,300	237,190	190,117	664,595
Disposals	(627)	(2,032)	(63)	(946)	(282)	(620)	(4,570)
Depreciation	-	(66,215)	(40,299)	(191,737)	-	(153,657)	(451,908)
Impairment	-	-	-	-	(15,542)	-	(15,542)
Ending balance	₩ 2,924,450	1,887,572	1,236,403	1,276,686	421,872	508,102	8,255,085
Acquisition cost	2,924,450	2,608,611	1,636,155	3,893,123	437,414	2,084,131	13,583,884
Accumulated depreciation	-	(721,039)	(399,752)	(2,533,402)	-	(1,574,816)	(5,229,009)
Accumulated impairment	-	-	-	(83,035)	(15,542)	(1,213)	(99,790)

(2) A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩3,745,726 million as of December 31, 2015. The Company maintains insurance coverage against fire and other casualty losses of up to ₩11,626,777 million for ships and sea structures under construction. Insurance proceeds of ₩2,278,153 million are pledged as collateral for the guarantees from the Export-Import Bank of Korea as of December 31, 2015.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩15,711,078 million as of December 31, 2015. The Company also maintains insurance on cargo against damage and claims losses of up to ₩11,820,909 million for products being exported and imported as of December 31, 2015.

(3) During 2015, due to the low profitability of the solar energy industry caused by oversupply, the Company assessed the recoverable amount of the related product line (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 ₩12,475 million was recognized.

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**17. Property, Plant and Equipment, Continued**

- (4) The Company decided to participate in the capital increase of Hotel Hyundai co., Ltd. which is one of the Company's subsidiaries, as payment in cash and investment in kind through board of directors in July 29, 2015. The purpose of capital increase is converting to direct operation system of Hotel Hyundai Co., Ltd. and the capital increase is scheduled for August, 2015. The object asset of the contribution in kind is property, plant and equipment of Hotel Hyundai Co., Ltd. (Ulsan, Gyeongju) which is one of the Company's subsidiaries and estimated amount of the contribution in kind is ₩175,083 million (estimated book value: ₩170,362 million). Estimated amount of the contribution in kind is ₩73,517 million.
- (5) Construction-in-progress is related to the construction of employee dormitory buildings, the development and construction of Ihwa industrial complex and construction of petrochemical refinery facility in Korea as of December 31, 2015.

**18. Intangible Assets**

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

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 309,801	336,523
Acquisition and other	42,039	56,752
Amortization	(72,939)	(63,796)
Impairment(*)	-	(19,678)
Ending balance	<u>₩ 278,901</u>	<u>309,801</u>
Acquisition cost	901,865	859,826
Accumulated amortization	(602,227)	(529,288)
Accumulated impairment	(20,737)	(20,737)

(\*) The Company recognized impairment loss for development subject that is interrupted.

- (2) Other intangible assets include usable and profitable donation assets to Maritime Affairs and Port Office and intangible assets with indefinite useful lives. Changes in other intangible assets for the years ended December 31, 2015 and 2014 are as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 55,821	59,287
Acquisition and other	3,197	1,974
Disposals	(14,816)	(3,220)
Amortization	(1,587)	(2,220)
Impairment(* 1)	(583)	-
Ending balance(* 2)	<u>₩ 42,032</u>	<u>55,821</u>
Acquisition cost	45,969	92,077
Accumulated amortization	(3,354)	(36,256)
Accumulated impairment	(583)	-

(\* 1) The Company recognized an impairment loss for a membership for which it is not probable the carrying amount will be recoverable for the year ended December 31, 2015.

(\* 2) The carrying amount of intangible assets with indefinite useful lives is ₩ 35,946 million and ₩ 44,848 million as of December 31, 2015 and 2014, respectively.



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**18. Intangible Assets, Continued**

(3) Research costs amounting to ₩ 18,466 million and ₩ 33,767 million, and ordinary development costs amounting to ₩ 163,528 million and ₩ 173,334 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 ₩ 70,828 million are included in the manufacturing cost and ₩ 2,111 million are included in selling, general and administrative expenses for the year ended December 31, 2015. Amortization of capitalized development costs of ₩ 63,381 million were included in the manufacturing cost and ₩ 415 million are included in selling, general and administrative expenses for the year ended December 31, 2014

**19. 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
Financial liability at fair value through profit or loss	₩	-	36,124	-	-
Borrowings		3,257,495	2,759,903	2,843,404	2,431,042
Debentures		351,600	1,605,000	800,000	1,229,760
Discount on debentures		(465)	(3,744)	(285)	(3,418)
Exchangeable bonds		-	259,715	-	-
Discount on exchangeable bonds		-	(2,522)	-	-
Exchange rights adjustment		-	(35,431)	-	-
	₩	<u>3,608,630</u>	<u>4,619,045</u>	<u>3,643,119</u>	<u>3,657,384</u>

**20. 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	₩	1,998,535	-	2,319,655	-
Other accounts payable		585,546	-	462,949	-
Dividends Payable		-	-	933	-
Accrued expenses		782,281	-	903,403	-
Deposits received		-	11,081	-	11,581
	₩	<u>3,366,362</u>	<u>11,081</u>	<u>3,686,940</u>	<u>11,581</u>

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**21. 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	₩	399,700	300,000
Commercial paper	Korea Investment & Securities Co., Ltd. and others	2.36		100,000	250,000
Invoice loan	Mizuho Corporate Bank and others	0.92~1.44		142,052	538,372
Usance L/C	KEB Hana Bank and others	0.21~1.15		826,010	1,230,091
Pre-shipment credit	Export-Import Bank of Korea and others	2.65~2.83		687,000	400,000
Other borrowings from Korea Exim Bank	Export-Import Bank of Korea	-		-	24,941
				<u>2,154,762</u>	<u>2,743,404</u>
Current portion of long-term borrowings				<u>1,102,733</u>	<u>100,000</u>
			₩	<u>3,257,495</u>	<u>2,843,404</u>

(2) Long-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	The Korea Development Bank and others	2.47~3.49	₩	1,066,666	650,000
General loan in foreign currency	KEB Hana Bank and others	1.61~2.75		1,523,600	769,440
Business loan(*)	Korea National Oil Corporation	0.75~3.75		12,370	11,602
Pre-shipment credit	Export-Import Bank of Korea and others	3.00~3.60		1,260,000	1,100,000
				<u>3,862,636</u>	<u>2,531,042</u>
Current portion				<u>(1,102,733)</u>	<u>(100,000)</u>
			₩	<u>2,759,903</u>	<u>2,431,042</u>

(\*) During 2013, the consortium that included the Company 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 the redemptions of these business loans are still being deliberated by the supervisory institution.

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**21. 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 <sup>rd</sup> debenture	2015.02.17	-	₩ -	500,000
114 <sup>st-1</sup> debenture	2015.07.24	-	-	300,000
114 <sup>st-2</sup> debenture	2017.07.24	3.35	400,000	400,000
116 <sup>st-1</sup> debenture	2017.02.26	3.14	200,000	200,000
116 <sup>st-2</sup> debenture	2019.02.26	3.45	300,000	300,000
117 <sup>st-1</sup> debenture	2018.03.03	2.45	180,000	-
117 <sup>st-2</sup> debenture	2020.03.03	2.65	50,000	-
117 <sup>st-3</sup> debenture	2022.03.03	3.05	70,000	-
118 <sup>st-1</sup> debenture	2017.07.23	2.33	80,000	-
118 <sup>st-2</sup> debenture	2018.07.23	2.66	235,000	-
118 <sup>st-3</sup> debenture	2020.07.23	3.26	90,000	-
Foreign currency bond	2016.06.10	1.39	351,600	329,760
			₩ 1,956,600	2,029,760
Discount on debentures			(4,209)	(3,703)
Current portion			(351,600)	(800,000)
Discount on current portion			465	285
			₩ 1,601,256	1,226,342

(4) Exchangeable bond

(i) Exchangeable bond as of December 31, 2015 is summarized as follows:

(In millions of won)

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

(ii) Terms and conditions of the exchangeable bonds 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)

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**21. 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:

	<b>Description</b>
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 the fluctuations in company's control has occurred - If stocks which the company issued is delisted or it is trading halt for more than 30 consecutive trading days
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 the 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 line of stocks - Connectivity of exchangeable bond issuance: Loan stocks are common stocks of Hyundai Merchant Marine Co., Ltd. - Loan charges: Annual 1.0%

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**21. Borrowings and Debentures, Continued**

(4) Exchangeable bonds, continued

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

According to this transaction, the Company entered into loan transactions with Merrill Lynch International and The Hongkong and Shanghai Banking Corporation Limited in the limit of 10,479,174 of the common stocks of Hyundai Merchant Marine Co., Ltd. that Hyundai Samho Heavy Industries Co., Ltd., one of the Company's subsidiaries holds (in the limit of 50% of the number of lending stocks per borrowers). According to this stock lending contracts, stocks Hyundai Samho Heavy Industries Co., Ltd. lent are restricted to voting rights and disposal.

(iii) Characteristics of the exchange rights, investors and the Company' 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.

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**21. Borrowings and Debentures, Continued**

- (5) Aggregate maturities of the Company'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	₩ 3,257,495	351,600	-	3,609,095
2017.01.01~2020.12.31	2,747,533	1,535,000	259,715	4,542,248
2021.01.01 and thereafter	12,370	70,000	-	82,370
	₩ 6,017,398	1,956,600	259,715	8,233,713

(In millions of won)

Periods	2014		
	Borrowings	Debentures	Total
2015.01.01~2015.12.31	₩ 2,843,404	800,000	3,643,404
2016.01.01~2019.12.31	2,419,440	1,229,760	3,649,200
2020.01.01 and thereafter	11,602	-	11,602
	₩ 5,274,446	2,029,760	7,304,206

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

(In millions of won)

	Currency	Annual interest rate (%)	Face value	Carrying amount	Maturity
Beginning balance	KRW		₩ 7,304,206	7,300,503	
Issues	KRW	2.65~3.05	2,687,000	2,687,000	2015~2018
	KRW	2.33~3.26	705,000	702,090	2017~2022
	USD	0.00	247,106	206,871	2020
	KRW	2.58~2.60	60,000	60,000	2015
	KRW and others	0.21~3.49	7,650,349	7,650,349	2015~2018
			11,349,455	11,306,310	
Repayment	KRW	2.78~3.60	(2,040,000)	(2,040,000)	
	KRW	3.23~3.96	(800,000)	(800,000)	
	KRW	2.58~2.70	(84,941)	(84,941)	
	KRW and others	0.36~3.60	(7,642,142)	(7,642,142)	
			(10,567,083)	(10,567,083)	
The effects of changes in foreign exchange rates			147,135	145,548	
Amortization of bond discounts			-	2,700	
Amortization of exchange rights adjustment			-	3,573	
Ending Balance			₩ 8,233,713	8,191,551	

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**22. Employee Benefits**

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

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
Present value of defined benefit obligations	₩ 1,356,866	1,361,484
Fair value of plan assets	(923,139)	(919,337)
	<u>₩ 433,727</u>	<u>442,147</u>

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

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
Retirement pension(*)	₩ 914,922	908,456
Transfer to National Pension Fund	8,217	10,881
	<u>₩ 923,139</u>	<u>919,337</u>

(\*) The retirement pension is invested in principal and interest guaranteed instrument as of December 31, 2015 and 2014.

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

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
Current service costs	₩ 146,957	151,203
Past service credit	-	109,059
Gain or loss on adjustment	(1,139)	-
Interest on obligations	37,647	40,340
Expected return on plan assets	(25,028)	(36,459)
	<u>₩ 158,437</u>	<u>264,143</u>

The Company introduced a voluntary retirement for the year ended December 31, 2015. ₩161,527 million was recorded as additional retirement benefits in selling and administrative expenses.

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**22. Employee Benefits, Continued**

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

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 1,361,484	1,068,756
Current service costs	146,957	151,203
Past service costs	-	109,059
Gain or loss on adjustment	(1,139)	-
Interest on obligations	37,647	40,340
Benefits paid	(169,167)	(146,651)
Increase or decrease due to reduced	(94,636)	-
Transfers from related parties	5,806	2,947
Actuarial losses in other comprehensive income (loss) :		
Demographic assumption	-	6,530
Financial assumption	26,727	95,541
Experience adjustment	43,187	33,759
Ending balance	<u>₩ 1,356,866</u>	<u>1,361,484</u>

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

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 919,337	948,301
Benefits paid	(138,456)	(128,993)
Increase or decrease due to reduced	(94,636)	-
Contributions paid into the plan	220,000	75,000
Expected return on plan assets	25,028	36,459
Actuarial gains in other comprehensive income (loss)	(8,134)	(11,430)
Ending balance	<u>₩ 923,139</u>	<u>919,337</u>

The Company reviews the level of the fund each year, and takes the policy to preserve fund in the event of a loss to the fund. The Company expects to pay ₩ 145,312 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 are as follows:

<i>(In millions of won)</i>	<u>2016.01.01~ 2016.12.31</u>	<u>2017.01.01~ 2020.12.31</u>	<u>2021.01.01~ 2025.12.31</u>	<u>2026.01.01~</u>	<u>Total</u>
Expected payment	₩ 31,288	567,009	630,817	3,477,845	4,706,959

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

<i>(In percentage)</i>	<u>2015</u>	<u>2014</u>
Discount rate	2.66	3.08
Future salary growth	2.77	3.00
Future mortality (Males, at age 45)	0.25	0.25



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**22. Employee Benefits, Continued**

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

<i>(In years)</i>	<u>2015</u>	<u>2014</u>
Weighted average duration	9.76	9.28

(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.

<i>(In millions of won)</i>	<u>2015</u>		<u>2014</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	₩ (110,194)	130,311	(104,873)	122,963
Future salary growth (1% movement)	106,348	(92,155)	99,393	(86,782)

**23. Long-term Provisions**

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

<i>(In millions of won)</i>	<u>2015</u>			
	<u>Provision for construction warranty</u>	<u>Provision for product warranty</u>	<u>Other Provision(*)</u>	<u>Total</u>
Beginning balance	₩ 253,666	122,449	84,201	460,316
Additions	193,845	167,953	87,776	449,574
Reversals	(28,120)	(10,565)	(104,702)	(143,387)
Utilization	(48,833)	(73,426)	-	(122,259)
Ending balance	₩ <u>370,558</u>	<u>206,411</u>	<u>67,275</u>	<u>644,244</u>

(\*) It is recognized as a financial liability related to constructive obligation those are surety insuring only performing construction, etc.

<i>(In millions of won)</i>	<u>2014</u>			
	<u>Provision for construction warranty</u>	<u>Provision for product warranty</u>	<u>Other Provision(*)</u>	<u>Total</u>
Beginning balance	₩ 312,818	68,569	-	381,387
Additions	54,321	131,818	84,201	270,340
Reversals	(38,358)	(8,696)	-	(47,054)
Utilization	(75,115)	(69,242)	-	(144,357)
Ending balance	₩ <u>253,666</u>	<u>122,449</u>	<u>84,201</u>	<u>460,316</u>

(\*) It is recognized as a financial liability related to the financial guarantee contract of a subsidiary.

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**24. Derivative Financial Instruments**

The Company has entered into derivative instrument contracts related to foreign currency forward with 23 banks, except for KEB Hana Bank, to hedge the changes in foreign exchange rates. Derivatives are measured at fair value by using forward exchange rate presented by the contract counterparty. Also, the Company measured the exchange right and others given to the exchangeable bond at fair value as it meets the definition of embedded derivatives instruments which needs to be separated from the host contract.

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

<b>Hedge accounting</b>	<b>Type</b>	<b>Description</b>
Cash flow hedge	Foreign exchange forward contracts	Hedge of the variability in cash flows attributable to foreign currency exposure in respect of forecast sales and purchases
Fair value hedge	Foreign exchange forward contracts	Hedge of the risk of changes in the fair value of firm commitments

(2) Terms of derivative contracts as of December 31, 2015 are as follows:

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

<b>Description</b>	<b>Currency</b>		<b>Contract amount</b>	<b>Number of contracts</b>	<b>Weighted average exchange rate</b>	<b>Average maturities</b>
	<b>Sell</b>	<b>Buy</b>				
Fair value hedge	EUR	KRW	1,526	1	1,490.09	2016-02-01
	USD	KRW	8,495,052	2,325	1,115.07	2016-11-27
Cash flow hedge	EUR	KRW	41,133	7	1,290.13	2016-04-06
	KRW	EUR	4,636	8	1,451.67	2016-12-03
	KRW	USD	105,827	25	1,099.78	2016-04-22
	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
For trading	USD	KRW	672,101	223	1,142.01	2016-05-28
	KRW	KRW	259,715	1	-	2020-06-18

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

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

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**24. Derivative Financial Instruments, Continued**

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

(In millions of won)

Description	Financial assets or liabilities at fair value through profit or loss															
	Derivatives				Assets				Liabilities				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	₩	3,225	2,409	283,712	214,565	-	-	-	-	207,723	210,208	6,227	2,409			
Cash flow hedge		8,699	113	29,727	1,329	-	-	-	-	-	-	-	-			
For trading		-	-	-	-	-	-	-	36,124	-	-	-	-			
	₩	<u>11,924</u>	<u>2,522</u>	<u>313,439</u>	<u>215,894</u>	-	-	-	<u>36,124</u>	<u>207,723</u>	<u>210,208</u>	<u>6,227</u>	<u>2,409</u>			

(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	Increase (decrease) to sales	Increase (decrease) 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 loss
Fair value hedge	₩	(156,492)	-	75,888	660,238	592,559	39,489
Cash flow hedge		(51,369)	75,646	-	-	-	55,868
For trading		-	-	14,840	9,831	-	-
	₩	<u>(207,861)</u>	<u>75,646</u>	<u>90,728</u>	<u>670,069</u>	<u>592,559</u>	<u>39,489</u>

For the year ended December 31, 2015, the Company applies cash flow hedge accounting, for which the Company accounted for the effective portion of the hedge amounting to ₩42,348 million, net of tax of ₩13,520 million, as gain on valuation of derivatives in accumulated other comprehensive income.

The expected period of exposure to cash flow risk, where cash flow hedge accounting is applied, is approximately 32 months.

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**25. Capital and Capital Surplus**

(1) Capital stock

The Company 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 year ended December 31, 2015.

(2) Capital surplus

Capital surplus is composed of paid-in capital in excess of par value and other capital surplus. Changes in the capital surplus for the year ended December 31, 2015 and 2014 are as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Beginning	₩ 1,044,517	1,044,517
Gains on disposal of treasury stocks	13,411	-
Ending	<u>₩ 1,057,928</u>	<u>1,044,517</u>

(3) Dividends

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

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

**26. Hybrid Bonds**

(1) Hybrid bonds classified as capital as of December 31, 2015 and 2014 are as follows:

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

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**26. Hybrid Bonds, Continued**

(2) Terms and conditions of the hybrid bonds issued as of December 31, 2015 are as follows:

(In millions of won)

	<b>1<sup>st</sup> -1 Hybrid bond</b>	<b>1<sup>st</sup> -2 Hybrid bond</b>
Amount Issued	KRW 360,000	KRW 70,000
Maturity	30 years (At maturity, it can be extended in accordance with the Company'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 5 <sup>th</sup> 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 of 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 contractual obligation to deliver cash or other financial assets to the holder. In case of liquidation, the hybrid bonds is subordinated bonds which have priority over common stocks.

**27. Treasury Stock**

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

(In millions of won, except share data)

	<b>2015</b>			<b>2014</b>		
	<b>Number of shares</b>	<b>Acquisition cost</b>	<b>Fair value</b>	<b>Number of shares</b>	<b>Acquisition cost</b>	<b>Fair value</b>
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 Company 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 Company accounted for the gain on disposal of treasury stock amounting to ₩ 13,411 million, after netting off deferred tax effect ₩ 4,283 million, as capital surplus.

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**28. Accumulated Other Comprehensive Income**

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

*(In millions of won)*

		<u>2015</u>	<u>2014</u>
Change in fair value of available-for-sale financial assets	₩	101,899	365,086
Effective portion of changes in fair value of cash flow hedges		(16,644)	(58,991)
	₩	<u>85,255</u>	<u>306,095</u>

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

*(In millions of won)*

		<u>2015</u>		
		<u>Before tax amount</u>	<u>Tax effect</u>	<u>After tax amount</u>
Change in fair value of available-for-sale financial assets	₩	(347,212)	84,025	(263,187)
Effective portion of changes in fair value of cash flow hedges		55,868	(13,520)	42,348
Defined benefit plan actuarial gains (losses)		(78,048)	18,888	(59,160)
	₩	<u>(369,392)</u>	<u>89,393</u>	<u>(279,999)</u>

*(In millions of won)*

		<u>2014</u>		
		<u>Before tax amount</u>	<u>Tax effect</u>	<u>After tax amount</u>
Change in fair value of available-for-sale financial assets	₩	(285,704)	69,141	(216,563)
Effective portion of changes in fair value of cash flow hedges		(38,981)	9,434	(29,547)
Defined benefit plan actuarial gains (losses)		(147,260)	35,637	(111,623)
	₩	<u>(471,945)</u>	<u>114,212</u>	<u>(357,733)</u>

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**29. Retained Earnings**

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

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
<b>Legal reserves:</b>		
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>
<b>Voluntary reserves: (*3)</b>		
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>
<b>Unappropriated retained earnings</b>	<u>(1,627,510)</u>	<u>(1,867,008)</u>
	<u>₩ 11,386,949</u>	<u>13,014,459</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:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 13,014,459	15,004,044
Loss for the year	(1,548,057)	(1,754,677)
Actuarial losses	(59,160)	(111,623)
Dividends	-	(122,577)
Hybrid bonds interest	(20,293)	(708)
Ending balance	<u>₩ 11,386,949</u>	<u>13,014,459</u>

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**29. Retained Earnings, Continued**

- (3) Statements of appropriation of retained earnings for the years ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	<u>2015</u>	<u>2014</u>
<b>I. Unappropriated retained earnings</b>	₩ (1,627,510)	(1,867,008)
Unappropriated retained earnings to be carried from previous year	-	-
Actuarial gain (loss)	(59,160)	(111,623)
Loss for the year	(1,548,057)	(1,754,677)
Hybrid bonds interest	(20,293)	(708)
<b>II. Transfer from voluntary reserves</b>	1,627,510	1,867,008
Reserve for research and human development	123,333	170,000
Voluntary reserve	1,504,177	1,697,008
<b>III. Total (I + II)</b>	-	-
<b>VI. Appropriation of retained earnings</b>	-	-
<b>V. Unappropriated retained earnings to be carried over to subsequent year</b>	₩ <u>-</u>	<u>-</u>

**30. 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	₩ 17,177,000	16,334,221
Goods sold	7,080,174	6,940,421
Services	215,170	188,819
	₩ <u>24,472,344</u>	<u>23,463,461</u>

The foreign sales accounting to ₩22,018,817 million, and domestic sales accounting to ₩2,453,527 million for the year ended December 31, 2015.

- (2) Changes in outstanding contracts 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>Other</u>	<u>Total</u>
Beginning balance(*)	₩ 13,870,013	17,435,570	5,590,509	36,896,092
Increase during the period	6,886,501	3,243,575	6,320,672	16,450,748
Recognized as revenue	(8,735,592)	(8,640,112)	(7,096,640)	(24,472,344)
Ending balance	₩ <u>12,020,922</u>	<u>12,039,033</u>	<u>4,814,541</u>	<u>28,874,496</u>

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

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



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**30. Outstanding Contracts, Continued**

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

(In millions of won)

	<b>Accumulated revenue of construction</b>	<b>Accumulated cost of construction</b>	<b>Accumulated profit and loss of construction</b>	<b>Billed receivables on construction contracts</b>	<b>Unbilled receivables on construction contracts</b>	<b>Due to customers for contract work</b>
Shipbuilding	₩ 7,026,128	7,093,388	(67,260)	49,646	3,163,521	1,564,132
Offshore , Industrial Plant and Engineering	23,883,273	25,736,321	(1,853,048)	804,808	810,706	2,407,161
Others	181,250	209,453	(28,203)	-	43,300	-
	<u>₩ 31,090,651</u>	<u>33,039,162</u>	<u>(1,948,511)</u>	<u>854,454</u>	<u>4,017,527</u>	<u>3,971,293</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 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.

- (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:

(In millions of won)

	<b>Change of total estimated contract cost</b>	<b>Effect of profit and loss for the current year(*)</b>	<b>Effect of profit and loss for the future period</b>	<b>Changes in due from customers for contract work</b>	<b>Changes in due to customers for contract work</b>
Shipbuilding	₩ 226,652	(135,917)	217,159	145,683	12,596
Offshore , Industrial Plant and Engineering	3,789,657	(1,324,958)	(155,080)	602,483	43,466
	<u>₩ 4,016,309</u>	<u>(1,460,875)</u>	<u>62,079</u>	<u>748,166</u>	<u>56,062</u>

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**30. Outstanding Contracts, Continued**

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

(i) Effect on each segment, continued:

(\*) 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 by 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 Company 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 gain 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:

(In millions of won)

	Effect of profit or loss this year		Effect of profit or loss in the future		Changes in due from customers for contract work		Changes in due to customers for contract work	
	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease
Shipbuilding	₩ (65,960)	52,033	(245,757)	259,686	(33,755)	34,828	32,222	(17,294)
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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**31. Selling, General and Administrative Expenses**

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

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Salaries	₩ 300,073	362,115
Post-employment benefit costs	181,740	46,122
Employee welfare	83,909	99,864
Depreciation	38,243	37,406
Amortization	2,111	415
Bad debt expenses	266,869	61,455
Ordinary development costs	163,528	173,334
Advertising	30,718	46,750
Printing	1,795	1,887
Compensation	571	149
Warranty expenses	339,038	126,888
Insurance	1,554	1,800
Supplies	3,415	6,199
Utilities	3,261	3,467
Repairs	5,357	6,232
Travel	15,607	15,377
Research	18,466	33,767
Training	10,024	10,628
Transportation	85,684	98,398
Rent	17,187	15,813
Data processing	14,210	11,406
Entertainment	1,939	1,803
Taxes and dues	4,323	5,587
Service charges	81,041	77,334
Automobile maintenance	5,479	6,806
Communications	3,606	4,744
Sales commissions	52,159	50,540
Others	30,337	26,937
	<u>₩ 1,762,244</u>	<u>1,333,223</u>

**32. Nature of Expenses**

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

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Changes in inventories	₩ 490,197	(527,544)
Purchase of inventories	14,854,888	15,225,022
Depreciation	474,339	457,981
Amortization	74,526	66,016
Labor cost	2,421,980	2,322,611
Other expenses	7,832,804	7,842,626
	<u>₩ 26,148,734</u>	<u>25,386,712</u>

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

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**33. 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>
<b>Finance income:</b>		
Interest income	₩ 26,860	37,533
Gain on valuation of financial instruments at fair value through profit or loss	1,431	32
Gain on disposal of financial instruments at fair value through profit or loss	13,409	2,622
Gain on disposal of available-for-sale financial assets	285,828	5,401
Dividend income	68,314	89,441
Gain on foreign currency translation	159,676	105,279
Gain on foreign currency transactions	467,133	367,372
Gain on valuation of derivatives	5,790	15,277
Gain on derivatives transactions	70,098	204,683
Provision for others reversal	104,702	-
	₩ <u>1,203,241</u>	<u>827,640</u>
<b>Finance costs:</b>		
Interest expense	₩ 82,844	85,746
Loss on disposal of financial instruments at fair value through profit or loss	9,831	6,618
Loss on disposal of available-for-sale financial assets	8,181	715
Impairment loss on available-for-sale financial assets	117,823	158,021
Losses on disposal of trade receivable	21,590	-
Loss on foreign currency translation	229,084	159,252
Loss on foreign currency transactions	459,004	370,924
Loss on valuation of derivatives	428,171	240,643
Loss on derivatives transactions	232,067	136,138
Provision for others addition	87,776	84,201
	₩ <u>1,676,371</u>	<u>1,242,258</u>

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**34. 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>
<b>Other non-operating income:</b>		
Reversal of other allowance for other doubtful accounts	₩ 67	25,256
Gain on disposal of subsidiaries, associates and joint venture	48,982	-
Gain on disposal of property, plant and equipment	25,608	1,790
Gain on disposal of intangible assets	6,966	800
Gain on valuation of firm commitments	592,559	312,062
Reversal of other current asset	396	-
Miscellaneous income	92,183	85,735
	<u>₩ 766,761</u>	<u>425,643</u>
<b>Other non-operating expenses:</b>		
Service charges	₩ 14,187	9,299
Impairment loss on other current assets	23,022	6,593
Impairment loss on investments in subsidiaries and associates	466,820	127,217
Loss on disposal of property, plant and equipment	18,490	3,348
Impairment loss on property, plant and equipment	12,475	15,542
Loss on disposal of intangible assets	814	126
Impairment loss on intangible assets	583	19,678
Loss on valuation of firm commitments	39,489	133,173
Loss on investments in subsidiaries and associates	998	2,744
Other bad debt expenses	236	2,973
Donation	10,787	39,103
Miscellaneous expenses	109,936	65,130
	<u>₩ 697,837</u>	<u>424,926</u>

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**35. Income Tax Expense (Benefit)**

(1) The components of income tax 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	₩ -	-
Adjustment for prior periods	(82,150)	(5,697)
Origination and reversal of temporary differences	(535,274)	(691,214)
Income tax recognized in other comprehensive income	84,885	114,437
Total income tax benefit	<u>₩ (532,539)</u>	<u>(582,474)</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	₩ 84,025	69,141
Losses on valuation of derivatives	(13,520)	9,434
Defined benefit plan actuarial gain (loss)	18,888	35,637
Hybrid bonds interest	(225)	225
Gains on disposal of treasury stocks	(4,283)	-
Income tax recognized directly in other comprehensive income	<u>₩ 84,885</u>	<u>114,437</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 are recognized in other comprehensive income.

(3) Reconciliation of the 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	₩ (2,080,596)	(2,337,151)
Tax rate	24.20%	24.20%
Income tax using the Company's statutory tax rate	<u>(503,504)</u>	<u>(565,591)</u>
Adjustment for:		
- Tax effect of non-deductible expenses	8,637	4,288
- Tax effect of non-taxable incomes	(10,509)	(9,522)
- Tax credits	(4,786)	(14,989)
- Current adjustments for prior periods	(82,150)	(5,697)
- Other	59,773	9,037
Income tax expenses (benefits)	<u>₩ (532,539)</u>	<u>(582,474)</u>
Effective tax rate	<u>% (*)</u>	<u>(*)</u>

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

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**35. 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	₩ 959,492	424,218
Deferred assets (liabilities) at the beginning of the period	<u>424,218</u>	<u>(266,996)</u>
Deferred tax expenses by origination and reversal of temporary differences	<u>₩ (535,274)</u>	<u>(691,214)</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 Company 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>
<b>2015</b>			
Investments in subsidiaries and associates	₩ 69,376	61,540	130,916
Available-for-sale financial assets	(57,455)	115,076	57,621
Reserve for research and human development	(110,513)	29,846	(80,667)
Trade and other receivables	173,397	13,320	186,717
Asset revaluation	(295,586)	242	(295,344)
Property, plant and equipment	(51,577)	(6,472)	(58,049)
Derivatives	18,680	616	19,296
Accrued expenses	36,565	(1,358)	35,207
Others	504,647	178,960	683,607
	<u>287,534</u>	<u>391,770</u>	<u>679,304</u>
Loss carried forward	121,695	138,718	260,413
Carried forward tax credit	14,989	4,786	19,775
	<u>₩ 424,218</u>	<u>535,274</u>	<u>959,492</u>
<b>2014</b>			
Investments in subsidiaries and associates	₩ 38,810	30,566	69,376
Available-for-sale financial assets	(161,047)	103,592	(57,455)
Reserve for research and human development	(151,653)	41,140	(110,513)
Trade and other receivables	161,871	11,526	173,397
Asset revaluation	(295,605)	19	(295,586)
Property, plant and equipment	(46,262)	(5,315)	(51,577)
Derivatives	(18,580)	37,260	18,680
Accrued expenses	22,594	13,971	36,565
Others	182,876	321,771	504,647
	<u>(266,996)</u>	<u>554,530</u>	<u>287,534</u>
Loss carried forward	-	121,695	121,695
Carried forward tax credit	-	14,989	14,989
	<u>₩ (266,996)</u>	<u>691,214</u>	<u>424,218</u>

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**35. Income Tax Expense (Benefit), Continued**

- (8) The details of temporary difference that is not recognized as deferred tax assets (liabilities) as of December 31, 2015 and 2014 are as follows.

(In millions of won)

	<u>2015</u>	<u>2014</u>	<u>Reason</u>
Deferred tax assets (liabilities)			
Investments in subsidiaries and associates	₩ (355,466)	(405,698)	It will not be disposed.

- (9) Since it is probable that future taxable profit will be available against which the unused tax losses can be utilized, the Company recognized a deferred tax assets.

**36. 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 for the year	₩ (1,548,057)	(1,754,677)
Interest of hybrid bonds	(20,293)	(708)
Weighted average number of ordinary shares outstanding (In thousands of shares)	62,338	61,288
Loss per share (In won)	₩ <u>(25,159)</u>	<u>(28,641)</u>

- (2) 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	61,288,440	365/365	61,288,440
Disposal of treasury shares	1,167,690	287/365	918,156
Disposal of treasury shares	41,232	268/365	30,275
Disposal of treasury shares	1,443,980	22/365	87,034
Disposal of treasury shares	202,487	8/365	4,438
Disposal of treasury shares	1,698,694	2/365	9,308
Weighted average number of ordinary shares outstanding	65,842,523		62,337,651

(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	61,288,440	365/365	61,288,440

- (3) Since there are no potentially dilutive common shares as of December 31, 2015 and 2014, diluted earnings per share have not been calculated.



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**37. Cash flow from Operations**

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

(In millions of won)

	<u>2015</u>	<u>2014</u>
<b>Loss for the year</b>	₩ (1,548,057)	(1,754,677)
<b>Adjustments for:</b>		
Post-employment benefit costs	158,437	264,143
Depreciation	474,339	457,981
Amortization	74,526	66,016
Bad debt expenses	266,869	61,455
Reversal of other allowance doubtful accounts	(67)	(25,256)
Other bad debt expense	236	2,973
Finance income	(652,601)	(252,962)
Finance costs	1,090,501	836,689
Other non-operating income	(674,511)	(314,652)
Other non-operating expenses	562,691	308,568
Salaries	182,505	-
Tax income	(532,539)	(582,474)
<b>Changes in assets and liabilities:</b>		
Trade receivables	(1,173,069)	765,691
Other receivables	150,107	(43,857)
Due from customers for contract work	753,567	424,818
Inventories	437,210	(534,136)
Derivatives	165,021	320,319
Firm commitments	80,275	(276,017)
Other current assets	1,238,630	(43,492)
Long-term trade receivables	-	(23,613)
Other non-current assets	(31)	-
Trade payables	(342,454)	379,698
Other payables	(85,012)	577,750
Advances from customers	(136,184)	(15,791)
Due to customers for contract work	(1,287,611)	891,673
Long-term other payables	(507)	12
Benefits paid	(263,803)	(146,651)
Succession of Benefits	5,806	2,947
Plan assets	13,092	53,993
Long-term provisions	200,854	(5,271)
	<u>₩ 706,277</u>	<u>3,150,554</u>

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**37. Cash flow from Operations, Continued**

(2) Significant transactions that do not involve cash inflows and outflows as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	<b>2015</b>	<b>2014</b>
Reclassification of construction-in-progress	₩ 479,694	126,828
Reclassification of current portion of long-term borrowings	1,243,153	400,000
Reclassification of current portion of bonds	328,815	800,000
Decrease of change in fair value of available-for-sale financial assets	(263,187)	(216,563)
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	27,718	360,634
Reclassification of property, plant and equipment to Investments in subsidiaries on account of investment in kind	175,083	-
Reclassification of account receivable to Investments in subsidiaries on account of investment in kind	59,734	-

**38. 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)

	<b>2015</b>							
	<b>Cash and cash equivalents</b>	<b>Available-for-sale financial assets</b>	<b>Loans and receivables</b>	<b>Derivative assets</b>	<b>Financial liabilities at fair value through profit or loss</b>	<b>Financial liabilities measured at amortized cost</b>	<b>Derivative liabilities</b>	<b>Other Provision</b>
Cash and cash equivalents	₩ 1,332,253	-	-	-	-	-	-	-
Short-term financial assets	-	-	149,700	-	-	-	-	-
Trade and other receivables	-	-	3,504,976	-	-	-	-	-
Due from customers for contract work	-	-	4,017,528	-	-	-	-	-
Derivative assets (current)	-	-	-	11,924	-	-	-	-
Long-term financial assets	-	385,493	30	-	-	-	-	-
Long-term trade and other receivables	-	-	241,283	-	-	-	-	-
Derivative assets (non-current)	-	-	-	2,522	-	-	-	-
Short-term financial liabilities	-	-	-	-	-	3,608,630	-	-
Trade and other payables	-	-	-	-	-	3,366,362	-	-
Derivative liabilities (current)	-	-	-	-	-	-	313,439	-
Long-term financial liabilities	-	-	-	-	36,124	4,582,921	-	-
Long-term trade and other liabilities	-	-	-	-	-	11,081	-	-
Derivative liabilities (non-current)	-	-	-	-	-	-	215,894	-
Other provision	-	-	-	-	-	-	-	67,275
	<b>₩ 1,332,253</b>	<b>385,493</b>	<b>7,913,517</b>	<b>14,446</b>	<b>36,124</b>	<b>11,568,994</b>	<b>529,333</b>	<b>67,275</b>

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**38. 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	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivative assets	Financial liabilities measured at amortized cost	Derivative liabilities	Other Provision
Cash and cash equivalents	₩ 1,407,944	-	-	-	-	-	-	-
Short-term financial assets	-	32	-	149,700	-	-	-	-
Trade and other receivables	-	-	-	2,965,452	-	-	-	-
Due from customers for contract work	-	-	-	4,706,155	-	-	-	-
Derivative assets (current)	-	-	-	-	101,394	-	-	-
Long-term financial assets	-	-	1,052,192	33	-	-	-	-
Long-term trade and other receivables	-	-	-	294,797	-	-	-	-
Derivative assets (non-current)	-	-	-	-	16,383	-	-	-
Short-term financial liabilities	-	-	-	-	-	3,643,119	-	-
Trade and other payables	-	-	-	-	-	3,686,940	-	-
Derivative liabilities (current)	-	-	-	-	-	-	145,514	-
Long-term financial liabilities	-	-	-	-	-	3,657,384	-	-
Long-term trade and other liabilities	-	-	-	-	-	11,581	-	-
Derivative liabilities (non-current)	-	-	-	-	-	-	90,070	-
Other provision	-	-	-	-	-	-	-	84,201
	₩ 1,407,944	32	1,052,192	8,116,137	117,777	10,999,024	235,584	84,201

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**38. 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:

<i>(In millions of won)</i>	<b>Profit (loss) for the year</b>		<b>Other comprehensive income (loss)</b>		<b>Interest income and interest expense(*)</b>		<b>Impairment loss</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	₩ 48,447	20,022	-	-	10,735	16,335	-	-
Financial assets at fair value through profit or loss	3,896	2,369	-	-	-	-	-	-
Available-for-sale financial assets	177,578	(144,184)	(263,187)	(216,563)	-	-	(117,823)	(158,021)
Loans and receivables	(135,896)	53,518	-	-	16,125	21,197	(267,038)	(39,172)
Financial liabilities at fair value through profit or loss	1,113	(6,333)	-	-	-	-	-	-
Financial liabilities measured at amortized cost	(433,476)	(322,075)	-	-	(197,876)	(193,857)	-	-
Derivative liabilities (non-current)	(584,350)	(161,131)	42,348	(29,547)	-	-	-	-
Provision for Others addition	16,926	(84,201)	-	-	-	-	-	-

(\*) It was included interest income and interest expense arising from effective interest rate amortization.

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**39. Risk of 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 are as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Financial assets at fair value through profit or loss	₩ -	32
Available-for-sale financial assets	385,493	1,052,192
Loans and receivables	7,913,517	8,116,137
Derivative assets	14,446	117,777
	<u>₩ 8,313,456</u>	<u>9,286,138</u>

The maximum exposure to credit risk for financial guarantee contracts is ₩490,259 million as of December 31, 2015 (see notes 40 and 42).

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	₩ 1,722,451	1,880,707
North America	712,253	1,252,812
Asia	1,942,092	1,718,164
Europe	2,289,358	2,516,916
Others	1,247,363	747,538
	<u>₩ 7,913,517</u>	<u>8,116,137</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	₩ 7,338,925	(316,696)	7,288,499	(128,093)
Past due 0~6 months	623,675	(4,806)	462,827	(9,934)
Past due 6~12 months	69,309	(6,963)	191,165	(33,078)
Past due 1~3 years	631,715	(426,958)	851,435	(518,659)
More than three years	104,713	(99,397)	123,197	(111,222)
	<u>₩ 8,768,337</u>	<u>(854,820)</u>	<u>8,917,123</u>	<u>(800,986)</u>

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**39. Risk of 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 are as follows:

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Beginning balance	₩ 800,986	761,876
Impairment loss recognized	272,460	87,431
Reversal of allowance accounts	(5,422)	(48,259)
Write-offs	(24,923)	(62)
Others	(188,281)	-
Ending balance	<u>₩ 854,820</u>	<u>800,986</u>

The allowance accounts in respect of loans and receivables is used to record impairment losses unless the Company 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 is recorded as other non-operating income and detail of this is as follows.

<i>(In millions of won)</i>	<u>2015</u>	<u>2014</u>
Other bad debt expense	₩ 236	2,973
Reversal of other allowance doubtful accounts	(67)	(25,256)
	<u>₩ 169</u>	<u>(22,283)</u>

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

<i>(In millions of won)</i>		<u>2015</u>				
	<u>Carrying amount</u>	<u>6 months or less</u>	<u>6~12 months</u>	<u>1~3 years</u>	<u>More than 3 years</u>	
Loans and receivables	₩ 891,288	618,869	62,346	204,757	5,316	

<i>(In millions of won)</i>		<u>2014</u>				
	<u>Carrying amount</u>	<u>6 months or less</u>	<u>6~12 months</u>	<u>1~3 years</u>	<u>More than 3 years</u>	
Loans and receivables	₩ 955,731	452,893	158,087	332,776	11,975	

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**39. Risk of 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 and 2014 are summarized as follows:

(In millions of won)

	Carrying amount	Contractual cash flow	2015			
			6 months or less	6~12 months	1~3 years	More than 3 years
<b>Non-derivative financial liabilities:</b>						
Unsecured bank loans	₩ 5,892,698	6,113,038	3,204,700	70,778	2,825,190	12,370
Secured bank loans	124,700	128,219	1,795	126,424	-	-
Unsecured bond issues	1,601,256	1,733,246	24,478	24,478	1,157,979	526,311
Secured bond issues	351,135	354,044	354,044	-	-	-
Secured exchange bond issues	221,762	259,715	-	-	259,715	-
Trade and other payables	3,377,443	3,377,443	3,347,266	19,095	10,820	262
<b>Derivative financial liabilities:</b>						
Forward exchange contracts used for hedging:						
Outflow	529,333	547,208	177,411	141,622	226,298	1,877
	₩ <u>12,098,327</u>	<u>12,512,913</u>	<u>7,109,694</u>	<u>382,397</u>	<u>4,480,002</u>	<u>540,820</u>

As of December 31, 2015, the Company did not include payment Financial assets at fair value through profit or loss and guarantee contracts amounting to ₩36,124 million and ₩67,275 million, which is recognized as a financial liability due to uncertainty of estimated payment time.

The maximum amount of assurance for financial guarantee contracts is ₩490,259 million as of December 31, 2015 (see Notes 40 and 42).

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

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39. Risk of Financial Instruments, Continued

(2) Liquidity risk, continued

(In millions of won)

	Carrying amount	Contractual cash flow	2014			
			6 months or less	6~12 months	1~3 years	More than 3 years
<b>Non-derivative financial liabilities:</b>						
Unsecured bank loans	₩ 5,274,446	5,417,992	2,642,160	286,717	2,477,513	11,602
Unsecured bond issues	1,697,737	1,807,206	524,811	317,438	652,008	312,949
Secured bond issues	328,320	335,388	1,876	1,876	331,636	-
Trade and other payables	3,698,521	3,698,521	3,657,162	29,778	11,581	-
<b>Derivative financial liabilities:</b>						
Forward exchange contracts used for hedging:						
Outflow	235,584	245,730	86,177	62,294	96,744	515
	₩ 11,234,608	11,504,837	6,912,186	698,103	3,569,482	325,066

As of December 31, 2014, the Company did not include payment guarantee contracts amounting to ₩84,201 million, which is recognized as a financial liability due to uncertainty of estimated payment time.

The maximum amount of assurance for financial guarantee contracts is ₩517,936 million as of December 31, 2014.

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

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

(In millions of won)

	Carrying amount	Expected cash flows	2015			
			6 months or less	6~12 months	1~3 years	More than 3 years
<b>Forward exchange contracts</b>						
Assets	₩ 8,812	8,909	8,271	519	119	-
Liabilities	(31,056)	(31,494)	(21,927)	(8,171)	(1,396)	-
	₩ (22,244)	(22,585)	(13,656)	(7,652)	(1,277)	-

(In millions of won)

	Carrying amount	Expected cash flows	2014			
			6 months or less	6~12 months	1~3 years	More than 3 years
<b>Forward exchange contracts</b>						
Assets	₩ 10,079	10,414	4,446	2,751	3,217	-
Liabilities	(87,904)	(89,618)	(56,544)	(28,742)	(4,303)	(29)
	₩ (77,825)	(79,204)	(52,098)	(25,991)	(1,086)	(29)



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**39. Risk of Financial Instruments, Continued**

(3) Currency risk

(i) Exposure to currency risk

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

(In millions of won)

		<b>2015</b>					
		<b>USD</b>	<b>EUR</b>	<b>CNY</b>	<b>JPY</b>	<b>Others</b>	<b>Total</b>
Cash and cash equivalents	₩	464,117	307	-	213	160,013	624,650
Loans and receivables		6,760,857	145,190	8,848	1,280	630,747	7,546,922
Trade and other payables		(1,381,618)	(116,377)	(505)	(8,628)	(311,544)	(1,818,672)
Borrowings and bonds		(2,912,978)	(106,896)	-	(88,698)	(6,775)	(3,115,347)
Other provision		-	-	-	-	(67,275)	(67,275)
Gross statement of financial position exposure		2,930,378	(77,776)	8,343	(95,833)	405,166	3,170,278
Derivative contracts		(507,368)	(7,613)	-	-	94	(514,887)
Net exposure	₩	<u>2,423,010</u>	<u>(85,389)</u>	<u>8,343</u>	<u>(95,833)</u>	<u>405,260</u>	<u>2,655,391</u>

(In millions of won)

		<b>2014</b>					
		<b>USD</b>	<b>EUR</b>	<b>CNY</b>	<b>JPY</b>	<b>Others</b>	<b>Total</b>
Cash and cash equivalents	₩	427,391	8,477	997	239	79,261	516,365
Loans and receivables		6,442,679	121,198	15,011	3,136	454,919	7,036,943
Trade and other payables		(1,234,826)	(119,393)	(7,236)	(10,881)	(209,382)	(1,581,718)
Borrowings and bonds		(2,552,651)	(232,470)	-	(94,122)	(22)	(2,879,265)
Other provision		-	(84,201)	-	-	-	(84,201)
Gross statement of financial position exposure		3,082,593	(306,389)	8,772	(101,628)	324,776	3,008,124
Derivative contracts		(69,750)	(20,814)	-	(26,806)	(405)	(117,775)
Net exposure	₩	<u>3,012,843</u>	<u>(327,203)</u>	<u>8,772</u>	<u>(128,434)</u>	<u>324,371</u>	<u>2,890,349</u>

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

(In won)

		<b>Average rate</b>		<b>Spot rate</b>	
		<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
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

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**39. Risk of Financial Instruments, Continued**

(3) Currency risk, continued

(ii) Sensitivity analysis

A weakening of the won, as indicated below, against the USD, EUR, CNY, JPY and others 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 Company 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)*

	<b>Profit or loss</b>	
	<b>2015</b>	<b>2014</b>
USD (3 percent strengthening)	₩ 72,690	90,385
EUR (3 percent strengthening)	(2,562)	(9,816)
CNY (3 percent strengthening)	250	263
JPY (3 percent strengthening)	(2,875)	(3,853)

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.

(4) Interest rate risk

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

*(In millions of won)*

	<b>2015</b>	<b>2014</b>
<b>Fixed rate instruments:</b>		
Financial assets	₩ 1,609,796	1,601,602
Financial liabilities	(6,146,143)	(6,193,404)
	<u>₩ (4,536,347)</u>	<u>(4,591,802)</u>
<b>Variable rate instruments:</b>		
Financial assets	₩ 31,964	210,854
Financial liabilities	(2,087,570)	(1,110,802)
	<u>₩ (2,055,606)</u>	<u>(899,948)</u>

(ii) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(iii) 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) 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.

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**39. Risk of Financial Instruments, Continued**

(4) Interest rate risk, continued

(iii) Cash flow sensitivity analysis for variable rate instruments, continued:

The changes in profit or loss are as follows:

(In millions of won)

	Profit or loss	
	100 bp increase	100 bp decrease
<b>Variable rate instruments</b>		
2015	₩ (20,556)	20,556
2014	(8,999)	8,999

(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 values	Carrying amounts	Fair values
<b>Assets carried at fair value:</b>				
Financial assets at fair value through profit or loss	₩ -	-	32	32
Available-for-sale financial assets(*)	385,493	385,493	1,052,192	1,052,192
Derivative assets	14,446	14,446	117,777	117,777
	₩ <u>399,939</u>	<u>399,939</u>	<u>1,170,001</u>	<u>1,170,001</u>
<b>Cash and cash equivalents</b>	₩ 1,332,253	1,332,253	1,407,944	1,407,944
<b>Assets carried at amortized cost:</b>				
Loans and receivables	₩ 7,913,517	7,913,517	8,116,137	8,116,137
<b>Financial assets total</b>	₩ <u>9,645,709</u>	<u>9,645,709</u>	<u>10,694,082</u>	<u>10,694,082</u>
<b>Liabilities carried at fair value:</b>				
Financial liabilities at fair value through profit or loss	₩ 36,124	36,124	-	-
Derivative liabilities	529,333	529,333	235,584	235,584
	₩ <u>565,457</u>	<u>565,457</u>	<u>235,584</u>	<u>235,584</u>
<b>Liabilities carried at amortized cost:</b>				
Unsecured bank loans	₩ 5,892,698	5,892,698	5,274,446	5,274,446
Secured bank loans	124,700	124,700	-	-
Unsecured bond issues	1,601,256	1,601,256	1,697,737	1,697,737
Secured bond issues	351,135	351,135	328,320	328,320
Secured exchangeable bond issues	221,762	221,762	-	-
Trade and other payables	3,377,443	3,377,443	3,698,521	3,698,521
Other provision	67,275	67,275	84,201	84,201
	₩ <u>11,636,269</u>	<u>11,636,269</u>	<u>11,083,225</u>	<u>11,083,225</u>
<b>Financial liabilities total</b>	₩ <u>12,201,726</u>	<u>12,201,726</u>	<u>11,318,809</u>	<u>11,318,809</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 ₩22,127 million and ₩23,897 million, respectively.

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**39. Risk of Financial Instruments, Continued**

(5) Fair values, continued

(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:

	<u>2015</u>	<u>2014</u>
Available-for-sale financial assets	7.94%	8.16%
Derivatives	3.69%	4.43%

(iii) Fair value hierarchy

The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (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>
<b>2015:</b>				
Available-for-sale financial assets ₩	330,262	285	32,819	363,366
Derivative assets	-	14,446	-	14,446
Financial liabilities at fair value through profit or loss	-	36,124	-	36,124
Derivative liabilities	-	529,333	-	529,333
<b>2014:</b>				
Financial assets at fair value through profit or loss	-	32	-	32
Available-for-sale financial assets	988,192	772	39,331	1,028,295
Derivative assets	-	117,777	-	117,777
Derivative liabilities	-	235,584	-	235,584

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**39. Risk of Financial Instruments, Continued**

(5) Fair values, continued

(ii) Fair value hierarchy, continued

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 Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 are comprised primarily of listed equity investments.

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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**39. Risk of Financial Instruments, Continued**

(6) Valuation techniques and input variables of Level 2 fair values

The valuation techniques and input variables used in measuring Level 2 fair values as of December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014	Valuation techniques	Input variables
<b>Available-for-sale financial assets:</b>				
Korea Investment Private Korea Exim bank Carbon Special Asset Trust I	₩ 285	772	Market approach	CER future price, discount rate and others
<b>Financial liabilities at fair value through profit or loss (Exchange rights to exchangeable bond):</b>				
	36,124	-	Binomial model	Variability of stock price, discount rate and others
<b>Derivatives (Foreign currency forward):</b>				
Financial assets or liabilities at fair value through profit or loss	-	32	Cash flow discount model	Currency forward price, discount rate and others
Derivative assets	14,446	117,777	Cash flow discount model	Currency forward price, discount rate and others
Derivative liabilities	529,333	235,584	Cash flow discount model	Currency forward price, discount rate and others

(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 six-month period ended December 31, 2015 and 2014 are as follows:

(In millions of won)

	2015	2014
	<b>Available-for-sale financial assets:</b>	<b>Available-for-sale financial assets:</b>
Beginning balance	₩ 39,331	44,762
Disposal	(6,214)	-
Transfer from Level 3	-	(1,139)
Included profits in other comprehensive income	(298)	(4,292)
	₩ 32,819	39,331

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**39. Risk of 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)*

	<u>2015</u>	<u>Valuation techniques</u>	<u>Input variables</u>	<u>Significant unobservable input variables</u>	<u>Ranges of significant unobservable input variables</u>
<b>Available-for-sale financial assets:</b>					
Daehan Oil Pipeline Corporation	₩ 32,819	Cash flow discount model	Discount rate	Discount rate	7.94%

*(In millions of won)*

	<u>2014</u>	<u>Valuation techniques</u>	<u>Input variables</u>	<u>Significant unobservable input variables</u>	<u>Ranges of significant unobservable input variables</u>
<b>Available-for-sale financial assets:</b>					
DOOSAN CAPITAL CO.,LTD.	₩ 6,214	Market comparison technique	Market multiples	Market multiples	0.83
Daehan Oil Pipeline Corporation	33,117	Cash flow discount model	Discount rate	Discount rate	8.16%
	<u>₩ 39,331</u>				

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**39. Risk of 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 are 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	
<b>Available-for-sale financial assets:</b>								
Daehan Oil Pipeline Corporation	Discount rate	Fair value decrease by discount rate increase	Measuring fair value changes by 1% discount rate increase or decrease	₩	-	-	3,832	(3,005)



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**39. Risk of 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, 2014 are 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
<b>Available-for-sale financial assets:</b>							
DOOSAN CAPITAL CO.,LTD.	Stock price multiple	Fair value increase by stock price multiple increase	Measuring fair value changes by 10% stock price multiple increase or decrease	₩ -	(4,536)	748	3,786
Daehan Oil Pipeline Corporation	Discount rate	Fair value decrease by discount rate increase	Measuring fair value changes by 1% discount rate increase or decrease	-	-	4,208	(3,305)
				₩ -	(4,536)	4,956	481

(8) Transfers of financial assets

(i) There is no transferred financial assets of December 31, 2015 and 2014

(ii) The Company has entered into financial asset transfer agreements amounting to USD 318,860 thousand on July 6, 2015 in order to sell guarantee deposits of Jeddah South construction which the Company has been proceeding with HSBC Bank Plc. According to this agreements, the Company sold the guarantee deposits of the construction amounting to USD 248,334 thousand on December 31, 2015.

Also, the Company has entered into financial asset transfer agreements on December 30, 2015 in order to sell progress receivables of NASR 2 construction which the Company has been proceeding with NBAD PJSC. According to this agreements, the Company sold the progress receivables of the construction amounting to USD 26,630 thousand on December 31, 2015.

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**39. Risk of Financial Instruments, Continued**

(9) Offsetting of financial assets and financial liabilities

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

*(In millions of won)*

		<b>2015</b>			
		<b>Total recognized financial assets</b>	<b>Total recognized financial assets that will be setoff</b>	<b>Net financial assets presented in the Statement of Financial Position</b>	<b>Net amount</b>
<b>Financial assets</b>					
Trade and other receivables	₩	28,743	(18,243)	10,500	10,500
<b>Financial liabilities</b>					
Trade and other payables		48,326	(18,243)	30,083	30,083

*(In millions of won)*

		<b>2014</b>			
		<b>Total recognized financial assets</b>	<b>Total recognized financial assets that will be setoff</b>	<b>Net financial assets presented in the Statement of Financial Position</b>	<b>Net amount</b>
<b>Financial assets</b>					
Trade and other receivables	₩	27,991	(18,676)	9,315	9,315
<b>Financial liabilities</b>					
Trade and other payables		54,753	(18,676)	36,077	36,077

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**40. Commitments and Contingencies**

- (1) As of December 31, 2015, the Company has entered into bank overdraft agreements with five banks amounting to ₩108,000 million and general loan agreements with nineteen banks amounting to ₩1,646,667 million and USD 1,300,000 thousand and deposit mortgage for loan agreement with three banks amounting to ₩124,700 million.
- (2) As of December 31, 2015, the Company has entered into credit facilities agreements such as letters of credit with various banks for the Company's exports and imports totaling USD 3,776,601 thousand.
- (3) As of December 31, 2015, the Company has entered into credit facilities agreements such as pre-shipment credit with various banks totaling ₩2,657,000 million and USD 10,555 thousand.
- (4) As of December 31, 2015, six bank notes and one check have been provided to customers as collaterals for the Company's borrowings from the customers and construction contract performance guarantees.
- (5) As of December 31, 2015, the Company is contingently liable for loan guarantees of its foreign subsidiaries amounting to USD 860,087 thousand. The Company 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., one of the Company's subsidiaries. The Company also provided performance guarantees in relation to 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 are being built by HHI France SAS and HHI Mauritius Ltd., one of the Company's subsidiaries. The Company has also entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd., one of the Company's subsidiaries, for the construction of 6 ships at a contract amount of USD 765,699 thousand.
- (6) In connection with the Company's contract performance guarantees, the Company has been provided with guarantees amounting to ₩1,035,199 million and USD 13,718,570 thousand (maximum guarantees amounting to ₩2,073,237 million and USD 19,544,190 thousand, respectively) by various banking facilities, of which regarding ships advance from customers, the Company has also been provided with maximum guarantees amounting to USD 10,777,010 thousand by various banking facilities. Regarding this, the Company provides as collateral its ships under construction and construction materials.
- (7) The Company entered into a consortium agreement on a resource development project with various organizations including Korea National Oil Corporation, and related other non-current assets as of December 31, 2015 and 2014 are as follows:

*(In millions of won)*

	<u>2015</u>	<u>2014</u>
Other non-current assets	₩ 63,307	63,307
Accumulated impairment losses	(63,307)	(63,307)
	<u>₩ -</u>	<u>-</u>

The Company recognized an impairment loss amounting to ₩63,307 million for the year ended December 31, 2013 since the carrying amount of the investment exceeds its recoverable amount. The Company also obtained borrowings from Korea National Oil Corporation (see Note 21).

- (8) The Company has received notice of results for tax audit from National Tax Service on October 23, 2015, and the Company 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 HEAVY INDUSTRIES CO., LTD.  
Notes to the Separate Financial Statements  
For the years ended December 31, 2015 and 2014

**41. 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 Company's appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Company filed administrative litigation. However, the Company lost the first trial on January 5, 2011 and appealed on January 25, 2011. In relation to the intermediate appeal, the Company partially won the litigation on February 15, 2013 for the settlement of the claim amounting to ₩52,800 million. However, the Company 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 Company 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 Company Limited. ("PTT") on June 25, 2011, the Company 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 Company 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 Company 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 Company, Britoil and PTT's insurer ("Dhipaya") as a co-defendants. The Company 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 Company 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 Company 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.
- (3) On January 16, 2009, the Company 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 Company 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 Company filed a lawsuit in Seoul Central District Court claiming guarantee insurance amounting to USD 91 million against SGI on April 5, 2013. The Company won the first trial on May 1, 2014 and WPC, a supplementary participant of defendant, filed appeal on May 20, 2014, but the Company 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 Company 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 Company has not received yet as of December 31, 2015. Currently, the impact on the separate financial statements, if any, cannot be reliably estimated.

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

**41. Litigations, Continued**

- (5) Although the Company partially lost the first trial of ordinary wage lawsuit (amounting to ₩600 million against Hyundai Heavy Industry Co., Ltd) on February 12, 2015, the Company 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 separate financial statements, if any, cannot be reliably estimated.
- (6) The Company 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 Company requested Ship-owner to resolve problems and compensate loss in April, 2015. The Company 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 Company initiated the LMAA (London Maritime Arbitrators Association) arbitration on October 22, 2015. Meanwhile, Ship-owner notified the Company of cancellation of the agreement and claimed to refund advances (USD 186,390 thousand) on October 27, 2015, and the Company 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 separate financial statements, if any, cannot be reliably estimated.
- (7) 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 Company, and currently, the impact on the separate financial statements, if any, cannot be reliably estimated.

In addition to the cases mentioned above, the Company is currently a defendant in 39 lawsuits involving claims totaling: ₩132,000 million. Currently, the impact on the Company's financial statements, if any, cannot be reliably estimated.

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

**42. Related Parties**

(1) The Company is the ultimate controlling party and its subsidiaries as of December 31, 2015 are as follows:

<b>Company</b>	<b>Main business</b>
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding
Hyundai Mipo Dockyard Co., Ltd.	Shipbuilding
Hyundai Oilbank Co., Ltd.	Manufacturing of petroleum products
Hyundai Heavy Material Service	Sale and manufacture of machinery equipment for shipbuilding
KOMAS Corporation	Shipping
Hyundai E&T Co., Ltd.	Other engineering services
Ulsan Hyundai Football Club Co., Ltd.	Football club
Hotel Hyundai Co., Ltd.	Hotel operation
HI Investment & Securities Co., Ltd.	Securities brokerage
HI Asset Management Co., Ltd.	Asset management
Hyundai Finance Corporation	Granting of credit
Hyundai Venture Investment Corporation	Granting of credit
Hyundai Futures Corporation	Entrust and brokerage of futures transactions
Hyundai Ship Private Fund 1	Other financial business
Hyundai Oil Terminal Co., Ltd.	Oil storage business
Hyundai and Shell Base Oil Co., Ltd.	Manufacturing of base oil
Hyundai Chemical Co., Ltd.	Crude oil refining business
HI Himsen Multi Strategy Private Funds Investment Trust 1	Other financial business
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	Sale and manufacture of machinery equipment for construction
HHI China Investment Co., Ltd.	Holding company
Hyundai Financial Leasing Co., Ltd.	Finance and operating leases
Hyundai Heavy Industries (China) Electric Co., Ltd.	Sale and manufacture of switchboards for electric distribution
Yantai Hyundai Moon Heavy Industries Co., Ltd.	Sale and manufacture of industrial boilers
Changzhou Hyundai Hydraulic Machinery Co., Ltd.	Sale and manufacture of hydraulic cylinders for construction equipment
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	Sale and manufacture of wheel loaders
Weihai Hyundai Wind Power Technology Co., Ltd.	Sale and manufacture of facilities for wind power generation
Hyundai Heavy Industries (Shanghai) R&D Co., Ltd.	Research and development of technology for construction machinery, engine and electric equipment
Hyundai Oilbank (Shanghai) Co., Ltd.	Trade petrochemical products

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

**42. Related Parties, Continued**

- (1) The Company is the ultimate controlling party and its subsidiaries as of June 30, 2015 are as follows, continued:

<b>Company</b>	<b>Main business</b>
HDO Singapore Pte. Ltd.	Trade crude oil and petrochemical products, chartering
Hyundai Vinashin Shipyard	Ship repair
Hyundai Construction Equipment India Pvt., Ltd.	Sale and manufacture of machinery equipment for construction
Hyundai Transformers and Engineering India Pvt. Ltd.	Sale and manufacture of transformers
Hyundai Construction Equipment Americas, Inc.	Sale of machinery equipment for construction
Hyundai Power Transformers USA, INC	Sale and manufacture of industrial electric equipment
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment
PHECO Inc.	Design services for offshore facilities
HHI Battery Co., Ltd.	Manufacturing
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	Manufacture, trade and repair of heavy equipment
Hyundai Heavy Industries Miraflores Power Plant Inc.	Manufacturing
Vladivostok Business Center	Hotel operation
Hyundai Khorol Agro Ltd.	Agriculture
Hyundai Mikhailovka Agro	Agriculture
Hyundai Electrosystems Co., Ltd.	Manufacture of high-voltage circuit breakers
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction
Hyundai Heavy Industries Co. Bulgaria	Sale and manufacture of transformers
Hyundai Technologies Center Hungary Kft	Research and development of technology
Hyundai Heavy Industries France SAS	Manufacturing
Jahnel-Kestermann Getriebewerke GmbH	Designing and manufacture of gearboxes
JaKe Service GmbH	Gearbox repair
HHI Mauritius Limited	Manufacturing
MS Dandy Ltd.	Ship rental service
Hyundai West Africa Limited	Manufacture of other transport equipment
Hyundai Arabia Company LLC.	Industrial plant construction
Grande Ltd.	Ship rental service
Hyundai Hi-Power Service Europe B.V	Wholesale service for machine and equipment

HYUNDAI HEAVY INDUSTRIES CO., LTD.  
Notes to the Separate Financial Statements  
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**42. Related Parties, Continued**

(2) Transactions with related parties

(i) Significant transactions for the years ended December 31, 2015 and 2014 with related parties are as follows:

(In millions of won)

	2015				
	Sales and other		Purchases and other		
	Sales	Dividend income	Purchase of raw materials	Purchase of property, plant and equipment	Purchase of others
<b>Subsidiaries:</b>					
Hyundai Samho Heavy Industries Co., Ltd.	₩ 397,064	-	119,292	22,246	96
Hyundai Mipo Dockyard Co., Ltd.	437,489	-	26,710	-	848
Hyundai Oilbank Co., Ltd.	65,723	-	91,398	-	85
Hyundai Heavy Material Service	8,276	-	158,755	969	272
Hotel Hyundai Co., Ltd.	10,591	-	32,957	-	4,841
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	19,757	-	8	-	484
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	16,565	-	-	-	288
Hyundai Heavy Industries (China) Electric Co., Ltd.	6,777	-	55,967	-	-
Yantai Hyundai Moon Heavy Industries Co., Ltd.	32	-	115,777	-	-
Hyundai Construction Equipment India Private Ltd.	76,334	-	34,221	-	1,181
Hyundai Construction Equipment Americas, Inc.	208,957	-	2,518	-	4,190
Hyundai Ideal Electric Co.	35,652	-	916	-	661
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	23,663	-	4,000	-	1,048
Hyundai Heavy Industries Europe N.V.	266,195	-	72	-	6,300
Others	29,484	12,635	88,754	3	13,511
	<u>1,602,559</u>	<u>12,635</u>	<u>731,345</u>	<u>23,218</u>	<u>33,805</u>
<b>Associates(*):</b>					
Wärtsilä-Hyundai Engine Company Ltd.	1,993	35,229	45,871	-	1
Hyundai Corporation	624,513	2,496	688	-	10,199
Others	15,153	200	30,756	-	55
	<u>641,659</u>	<u>37,925</u>	<u>77,315</u>	<u>-</u>	<u>10,255</u>
	<u>₩ 2,244,218</u>	<u>50,560</u>	<u>808,660</u>	<u>23,218</u>	<u>44,060</u>

(\* ) Including associates and joint ventures' subsidiaries.

In addition to the above transactions, the Company has sold its entire equity interest in its subsidiary, Hyundai Energy & Resources Co., Ltd., to Hyundai Corporation which is a related party for the ₩19,232 million.

The Company acquires investments in subsidiaries paid ₩ 248,600 million participating in paid-in capital increase of Hotel Hyundai Co., Ltd. through payment in cash (₩73,517 million) and investment in kind (₩170,362 million - Property, Plant and Equipment).



HYUNDAI HEAVY INDUSTRIES CO., LTD.  
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42. Related Parties, Continued

(2) Transactions with related parties, continued

(i) Significant transactions for the years ended December 31, 2015 and 2014 with related parties are as follows, continued:

And the Company acquires investments in subsidiaries paid ₩ 83,298 million participating in paid-in capital increase of Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment through payment in cash (₩ 23,564 million) and investment in kind (₩ 59,734 million – Account Receivable).

(In millions of won)

	2014					
	Sales and other		Purchases and other			
	Sales	Dividend income	Purchase of raw materials	Purchase of property, plant and equipment	Purchase of others	Dividends paid
<b>Subsidiaries:</b>						
Hyundai Samho Heavy Industries Co., Ltd.	₩ 356,555	7,593	179,456	136,304	140	-
Hyundai Mipo Dockyard Co., Ltd.	398,390	-	23,626	-	-	12,126
Hyundai Oilbank Co., Ltd.	62,817	-	131,301	-	415	-
Hyundai Heavy Material Service	7,006	19,980	139,794	424	5,048	-
Hotel Hyundai Co., Ltd.	233	-	36,264	-	2,102	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	33,571	-	-	-	2,008	-
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	29,074	-	2,219	-	1,466	-
Hyundai Heavy Industries (China) Electric Co., Ltd.	5,908	-	66,108	-	-	-
Yantai Hyundai Moon Heavy Industries Co., Ltd.	26	-	80,490	-	7	-
Hyundai Construction Equipment India Private Ltd.	74,021	-	32,359	-	907	-
Hyundai Construction Equipment Americas, Inc.	233,483	-	53	-	4,396	-
Hyundai Ideal Electric Co.	29,472	-	1,218	-	59	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	30,781	-	-	-	2,486	-
Hyundai Heavy Industries Europe N.V.	273,862	-	-	-	4,622	-
Others	15,638	9,150	100,885	-	17,456	-
	<u>1,550,837</u>	<u>36,723</u>	<u>793,783</u>	<u>136,728</u>	<u>41,112</u>	<u>12,126</u>
<b>Associates and joint ventures(*):</b>						
Wärtsilä-Hyundai Engine Company Ltd.	₩ 2,971	27,137	118,168	-	-	-
Hyundai Corporation	806,362	2,496	8,030	-	7,217	-
Others	6,256	3,440	25,342	-	11	-
	<u>815,589</u>	<u>33,073</u>	<u>151,540</u>	<u>-</u>	<u>7,228</u>	<u>-</u>
<b>Associates of subsidiaries:</b>						
Hyundai Cosmo Petrochemical Co., Ltd.	-	-	-	-	137	-
	<u>₩ 2,366,426</u>	<u>69,796</u>	<u>945,323</u>	<u>136,728</u>	<u>48,477</u>	<u>12,126</u>

(\* ) Including associates and joint ventures' subsidiaries.

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

**42. Related Parties, Continued**

(2) Transactions with related parties, continued

(ii) Outstanding balances as of December 31, 2015 and 2014 with related parties are as follows:

(In millions of won)

	<b>2015</b>			
	<b>Trade receivables and other receivables</b>		<b>Trade payables and other payables</b>	
	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Trade payables</b>	<b>Other payables</b>
<b>Subsidiaries:</b>				
Hyundai Samho Heavy Industries Co., Ltd.	₩ 184,494	98	-	147,179
Hyundai Mipo Dockyard Co., Ltd.	119,951	70	3,399	81,380
Hyundai Oilbank Co., Ltd.	16	1	7,536	21,971
Hyundai Heavy Material Service	339	9	30,637	-
Hotel Hyundai Co., Ltd.	41	475	3,562	37
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	2,207	57	-	20
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	7,205	45	-	22
Hyundai Heavy Industries (China) Electric Co., Ltd.	350	-	4,113	-
Hyundai Construction Equipment India Private Ltd.	47,272	331	783	154
Hyundai Construction Equipment Americas, Inc.	41,358	24	1,111	318
Hyundai Ideal Electric Co.	11,977	29	150	401
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	94,634	1,387	1,044	642
Hyundai Heavy Industries Europe N.V.	72,301	13	23	1,379
Others	28,793	3,300	5,744	3,968
	<u>610,938</u>	<u>5,839</u>	<u>58,102</u>	<u>257,471</u>
<b>Associates(*):</b>				
Wärtsilä-Hyundai Engine Company Ltd.	-	16,771	1,491	239
Others	4,367	91	-	11,848
	<u>4,367</u>	<u>16,862</u>	<u>1,491</u>	<u>12,087</u>
	₩ <u>615,305</u>	<u>22,701</u>	<u>59,593</u>	<u>269,558</u>

(\* ) Including associates and joint ventures' subsidiaries.

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

**42. Related Parties, Continued**

(2) Transactions with related parties, continued

(ii) Outstanding balances as of December 31, 2015 and 2014 with related parties are as follows, continued:

(In millions of won)

	2014			
	Trade receivables and other receivables		Trade payables and other payables	
	Trade receivables	Other receivables	Trade payables	Other payables
<b>Subsidiaries:</b>				
Hyundai Samho Heavy Industries Co., Ltd.	₩ 126,791	96	19,066	142,081
Hyundai Mipo Dockyard Co., Ltd.	121,426	10	2,338	75,233
Hyundai Oilbank Co., Ltd.	3,368	-	13,173	-
Hyundai Heavy Material Service	674	9	33,776	-
Hotel Hyundai Co., Ltd.	14	-	1,999	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	6,822	177	-	1,512
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	9,416	94	-	1,312
Hyundai Heavy Industries (China) Electric Co., Ltd.	582	46	9,532	81
Yantai Hyundai Moon Heavy Industries Co., Ltd.	-	50,647	10,058	-
Hyundai Construction Equipment India Private Ltd.	51,673	321	-	65
Hyundai Construction Equipment Americas, Inc.	81,831	11	-	412
Hyundai Ideal Electric Co.	14,261	29	505	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	159,743	2,138	-	1,884
Hyundai Heavy Industries Europe N.V.	48,244	1	5	1,233
Others	14,409	3,736	8,059	4,208
	<u>639,254</u>	<u>57,315</u>	<u>98,511</u>	<u>228,021</u>
<b>Associates(*):</b>				
Wärtsilä-Hyundai Engine Company Ltd.	540	12,135	-	-
Hyundai Corporation	265,391	1,665	6,451	37,615
Others	491	661	1,644	11,395
	<u>266,422</u>	<u>14,461</u>	<u>8,095</u>	<u>49,010</u>
	<u>₩ 905,676</u>	<u>71,776</u>	<u>106,606</u>	<u>277,031</u>

(\* ) Including associates and joint ventures' subsidiaries.

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

**42. Related Parties, Continued**

- (3) Details of guarantees which the Company had provided for related companies as of December 31, 2015 are as follows:

*(In thousands of foreign currency)*

<b>Guarantee recipient</b>	<b>Provider</b>	<b>Type of guarantees</b>	<b>Currency</b>	<b>Guaranteed amount</b>
<b>Subsidiaries:</b>				
Weihai Hyundai Wind Power Technology Co., Ltd.	Export-Import Bank of Korea	Payment	USD	5,000
Hyundai Financial Leasing Co., Ltd.	Export-Import Bank of Korea	Payment	USD	10,000
Hyundai Construction Equipment India Private Ltd.	Standard Chartered Bank and others	Payment	USD	75,000
Hyundai Construction Equipment Americas, Inc.	KEB Hana Bank and others	Payment	USD	70,400
Hyundai Power Transformers USA, INC	Woori Bank and others	Payment	USD	133,000
	Liberty Mutual	Performance	USD	20,000
	Capine Corporation	Performance	USD	49,839
Hyundai Ideal Electric Co.	Mizuho Corporate Bank Ltd, LA Branch	Payment	USD	10,000
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	Banco Nacional de Desenvolvimento Economico e Social (BNDES)	Payment	BRL	109,956
Hyundai Heavy Industries Europe N.V.	KEB Hana Bank and others	Payment	EUR	34,000
	BNP Paribas Fortis Bank, Belgium	Performance	EUR	250
Hyundai Heavy Industries Co. Bulgaria	BNP Paribas S.A., Sofia and others	Payment	USD	50,000
Hyundai Heavy Industries France SAS	Export-Import Bank of Korea and others	Performance	USD	250,194
			USD	43,211
HHI MAURITIUS LIMITED	Export-Import Bank of Korea and others	Performance	USD	78,260
Hyundai Arabia Company L.L.C	KEB Hana Bank and others	Performance	USD	794,904
			EUR	34,250
			BRL	109,956

Other than the guarantees above, the Company 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., one of the Company's subsidiaries. The Company also provided performance guarantees in relation to 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 are being built by HHI France SAS and HHI Mauritius Ltd., one of the Company's subsidiaries.

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

**42. Related Parties, Continued**

- (4) Details of guarantee which the Company provided for the related parties as of December 31, 2015 are as follows:

*(In millions of won)*

	<u>Pledged asset</u>	<u>Book value</u>	<u>Amount</u>	<u>Provider</u>
<b>Associate:</b>				
Pyeongchang wind power Co.,Ltd.	Investments in associates - Pyeongchang wind power Co., Ltd	₩ 3,566	79,200	Woori bank and others

- (5) Compensation for key management of the Company for the years ended December 31, 2015 and 2014 are ₩1,986 million and ₩3,397 million, respectively. Key management is defined as directors and internal auditors who have important rights and responsibilities involving the planning, operation and control of the Company.

## Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2015 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

### **Independent Auditors' Review Report on Internal Accounting Control System**

#### English translation of a Report Originally Issued in Korean

To the President of  
Hyundai Heavy Industries Co., Ltd.:

We have reviewed the accompanying Reports on the Operations of Internal Accounting Control System ("IACS") of Hyundai Heavy Industries (the "Company") as of December 31, 2015. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2015, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2015 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2015. We did not review the Company's IACS subsequent to December 31, 2015. This report has been prepared for Korea regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

March 10, 2016

## **Report on the Operations of Internal Accounting Control System**

English translation of a Report Originally Issued in Korean

To the Audit Committee of  
Hyundai Heavy Industries Co., Ltd.:

I, as the Internal Accounting Control Officer ("IACO") of Hyundai Heavy Industries Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") as of December 31, 2015.

The Company's management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2015, in all material respects, in accordance with the IACS Framework issued by the IACS Operations Committee.

Cho, Young Cheol  
Internal Accounting Control Officer

Kwon, Oh Gap  
Chief Executive Officer

February 4, 2016

## **Report on the Operations of Internal Accounting Control System**

English translation of a Report Originally Issued in Korean

To the Board of Directors of  
Hyundai Heavy Industries Co., Ltd.:

I, as the Internal Accounting Control Officer (“IACO”) of Hyundai Heavy Industries Co., Ltd. (the “Company”), have assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) as of December 31, 2015.

The Company’s management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2015, in all material respects, in accordance with the IACS Framework issued by the IACS Operations Committee.

Cho, Young Cheol  
Internal Accounting Control Officer

Kwon, Oh Gap  
Chief Executive Officer

February 25, 2016