

HYUNDAI HEAVY INDUSTRIES CO., LTD.  
AND SUBSIDIARIES

Consolidated Financial Statements

**December 31, 2014**

(With Independent Auditors' Report Thereon)

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# Independent Auditors' Report

Based on a report originally issued in Korean

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

We have audited the accompanying consolidated financial statement of Hyundai Heavy Industries Co., Ltd. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of December 31, 2014 and 2013 and the consolidated statements of comprehensive income (Loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

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

## *Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2014 and 2013 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

*Other Matter*

The accompanying consolidated statement of financial position of the Group as of December 31, 2013, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, were audited by us in accordance with the previous auditing standards generally accepted in the Republic of Korea. We did not audit the separate financial statements of Hyundai Mipo Dockyard Co., Ltd. and other subsidiaries, whose total assets amounted to ₩30,818,964 million (prior to elimination of inter-company balances) as of December 31, 2013 and sales amounted to ₩35,664,527 million (prior to elimination of inter-company balances) for the year then ended. Other auditors audited those financial statements and our report, insofar as it relates to the subsidiary, was based solely on the reports of other auditors.

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

KPMG Samjong Accounting Corp.

Seoul, Korea

March 19, 2015

This report is effective as of March 19, 2015, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Financial Position  
 As of December 31, 2014 and 2013

(In thousands of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>			
Cash and cash equivalents	4,42,43	₩ 3,229,315,488	1,336,613,209
Short-term financial assets	6,7,15,19,26,42,43	4,742,522,625	4,692,328,819
Trade and other receivables	7,8,9,19,33,42,43,46	5,734,112,198	7,053,564,787
Due from customers for contract work	8,33,42,43	7,154,045,476	6,675,111,932
Inventories	10,19	5,822,203,196	6,129,287,249
Derivative assets	26,42,43	127,428,741	512,917,626
Firm commitment assets	26	102,390,560	10,463,993
Prepaid income taxes		63,330,607	63,631,292
Other current assets	11,24	<u>2,896,259,774</u>	<u>2,780,264,843</u>
<b>Total current assets</b>		<u>29,871,608,665</u>	<u>29,254,183,750</u>
Investments in associates and joint ventures	12,13,46	554,290,606	661,663,685
Long-term financial assets	6,7,15,19,26,42,43	2,496,029,851	3,322,603,688
Long-term trade and other receivables	7,8,9,33,42,43,46	930,131,965	1,088,685,374
Investment property	16,34	393,474,781	433,616,630
Property, plant and equipment	17,19,34	16,060,222,102	15,712,997,462
Intangible assets	18,34	2,211,628,038	2,285,648,835
Derivative assets	26,42,43	19,375,757	254,532,450
Firm commitment assets	26	153,874,765	1,176,419
Deferred tax assets	39	629,359,589	82,951,542
Other non-current assets	11,44	<u>64,421,722</u>	<u>106,911,786</u>
<b>Total non-current assets</b>		<u>23,512,809,176</u>	<u>23,950,787,871</u>
<b>Total assets</b>		<u>₩ 53,384,417,841</u>	<u>53,204,971,621</u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Financial Position, Continued  
As of December 31, 2014 and 2013

(In thousands of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b>Liabilities</b>			
Short-term financial liabilities	19,20,23,26,42,43,44	₩ 12,129,708,393	12,199,921,487
Trade and other payables	21,42,43,46	6,362,168,342	6,354,333,209
Advances from customers		705,470,656	819,346,091
Due to customers for contract work	33	8,140,673,917	6,661,170,259
Derivative liabilities	26,42,43	204,790,242	74,481,517
Firm commitment liabilities	26	78,981,745	291,110,146
Income tax payable		42,905,141	93,547,287
Other current liabilities	22	37,972,597	22,513,459
<b>Total current liabilities</b>		<u>27,702,671,033</u>	<u>26,516,423,455</u>
Long-term financial liabilities	19,20,23,26,42,43,44	7,440,036,077	5,602,537,611
Long-term trade and other payables	21,42,43,46	104,396,800	134,150,430
Liabilities for defined benefit plans	24	551,233,374	163,952,708
Long-term provisions	25	502,372,244	552,916,916
Derivative liabilities	26,42,43	162,567,299	31,377,799
Firm commitment liabilities	26	13,059,104	241,105,773
Deferred tax liabilities	39	235,878,849	888,794,126
Other non-current liabilities	22	33,627,399	44,121,046
<b>Total non-current liabilities</b>		<u>9,043,171,146</u>	<u>7,658,956,409</u>
<b>Total liabilities</b>		<u>36,745,842,179</u>	<u>34,175,379,864</u>
<b>Equity</b>			
Common stock	27	380,000,000	380,000,000
Capital surplus	27	1,109,309,014	1,109,309,014
Hybrid bonds	28	428,589,000	-
Capital adjustments	29	(1,762,535,173)	(1,772,782,730)
Accumulated other comprehensive income	26,30	746,492,455	1,239,973,279
Retained earnings	31	14,271,926,021	16,293,099,047
<b>Equity attributable to owners of the Company</b>		15,173,781,317	17,249,598,610
<b>Non-controlling interests</b>		<u>1,464,794,345</u>	<u>1,779,993,147</u>
<b>Total equity</b>		<u>16,638,575,662</u>	<u>19,029,591,757</u>
<b>Total liabilities and equity</b>		<u>₩ 53,384,417,841</u>	<u>53,204,971,621</u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Income (Loss)  
For the years ended December 31, 2014 and 2013

(In thousands of won, except per share information)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Sales	26,33,34,46	₩ 52,582,404,205	54,188,096,316
Cost of sales	10,18,26,36,46	<u>(53,299,441,785)</u>	<u>(50,932,984,966)</u>
<b>Gross profit (loss)</b>		(717,037,580)	3,255,111,350
Selling, general and administrative expenses	18,35,36	<u>(2,532,417,385)</u>	<u>(2,453,128,334)</u>
<b>Operating profit (loss)</b>	34	(3,249,454,965)	801,983,016
Finance income	26,37,42	1,611,112,500	1,857,474,471
Finance costs	26,37,42	(1,938,268,861)	(1,692,710,450)
Other non-operating income	26,38	970,726,316	405,200,018
Other non-operating expenses	17,18,26,38	(462,059,802)	(1,038,459,020)
Share of loss of equity accounted investees	12,13	<u>(37,100,275)</u>	<u>(189,194,705)</u>
<b>Profit (loss) before income taxes</b>		(3,105,045,087)	144,293,330
Income tax expense (income)	39	<u>(898,980,392)</u>	<u>(2,010,056)</u>
<b>Profit (loss) for the year</b>	34	₩ <u>(2,206,064,695)</u>	<u>146,303,386</u>
<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		₩ (495,770,561)	262,687,801
Effective portion of changes in fair value of cash flow hedges		(26,888,716)	(12,103,449)
Exchange differences on translating foreign operations		(35,333,047)	(11,389,648)
Change in equity of equity method investments		<u>55,724,964</u>	<u>(19,949,298)</u>
<b>Total items that are or may be reclassified subsequently to profit or loss</b>		<u>(502,267,360)</u>	<u>219,245,406</u>
<b>Items that will not be reclassified to profit or loss:</b>			
Defined benefit plan actuarial gains (losses)		(149,579,380)	65,605,512
Changes in retained earnings of equity method investments		<u>8,391,533</u>	<u>1,438,200</u>
<b>Total items that will not be reclassified to profit or loss</b>		<u>(141,187,847)</u>	<u>67,043,712</u>
<b>Other comprehensive income (loss) for the year, net of income tax</b>	24,30,39,42	<u>(643,455,207)</u>	<u>286,289,118</u>
<b>Total comprehensive income (loss) for the year</b>		₩ <u><u>(2,849,519,902)</u></u>	<u><u>432,592,504</u></u>
<b>Profit (loss) attributable to:</b>			
Owners of the Company		(1,769,214,511)	278,705,518
Non-controlling interests		<u>(436,850,184)</u>	<u>(132,402,132)</u>
		₩ <u><u>(2,206,064,695)</u></u>	<u><u>146,303,386</u></u>
<b>Total comprehensive income (loss) attributable to:</b>			
Owners of the Company		(2,396,682,367)	509,889,250
Non-controlling interests		<u>(452,837,535)</u>	<u>(77,296,746)</u>
		₩ <u><u>(2,849,519,902)</u></u>	<u><u>432,592,504</u></u>
<b>Earnings (loss) per share</b>	40		
Basic and diluted earnings (loss) per share (in won)		₩ <u><u>(32,049)</u></u>	<u><u>5,047</u></u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
 Consolidated Statements of Changes in Equity  
 For the years ended December 31, 2014 and 2013

(In thousands of won)

		Common stock	Capital surplus	Hybrid bonds	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Non-controlling interests	Total equity
<b>Balance at January 1, 2013</b>	₩	380,000,000	1,109,309,014	-	(1,778,129,902)	1,071,626,631	16,098,025,119	1,860,520,333	18,741,351,195
<b>Total comprehensive income (loss) for the year</b>									
Profit (loss) for the year		-	-	-	-	-	278,705,518	(132,402,132)	146,303,386
Change in fair value of available-for-sale financial assets		-	-	-	-	214,010,305	-	48,677,496	262,687,801
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	(12,117,611)	-	14,162	(12,103,449)
Exchange differences on translating foreign operations		-	-	-	-	(13,752,484)	-	2,362,836	(11,389,648)
Change in equity of equity method investments		-	-	-	-	(19,793,562)	-	(155,736)	(19,949,298)
Change in retained earnings of equity method investments		-	-	-	-	-	1,473,548	(35,348)	1,438,200
Defined benefit plan actuarial losses		-	-	-	-	-	61,363,536	4,241,976	65,605,512
<b>Transactions with owners of the Company, recognized directly in equity</b>									
Dividends		-	-	-	-	-	(146,468,674)	(9,465,912)	(155,934,586)
Changes in ownership in subsidiaries		-	-	-	5,347,172	-	-	6,235,472	11,582,644
<b>Balance at December 31, 2013</b>	₩	<u>380,000,000</u>	<u>1,109,309,014</u>	<u>-</u>	<u>(1,772,782,730)</u>	<u>1,239,973,279</u>	<u>16,293,099,047</u>	<u>1,779,993,147</u>	<u>19,029,591,757</u>
<b>Balance at January 1, 2014</b>	₩	380,000,000	1,109,309,014	-	(1,772,782,730)	1,239,973,279	16,293,099,047	1,779,993,147	19,029,591,757
<b>Total comprehensive income (loss) for the year</b>									
Loss for the year		-	-	-	-	-	(1,769,214,511)	(436,850,184)	(2,206,064,695)
Change in fair value of available-for-sale financial assets		-	-	-	-	(484,097,563)	-	(11,672,998)	(495,770,561)
Effective portion of changes in fair value of cash flow hedges		-	-	-	-	(26,989,061)	-	100,345	(26,888,716)
Exchange differences on translating foreign operations		-	-	-	-	(37,677,622)	-	2,344,575	(35,333,047)
Change in equity of equity method investments		-	-	-	-	55,283,422	-	441,542	55,724,964
Change in retained earnings of equity method investments		-	-	-	-	-	8,266,264	125,269	8,391,533
Defined benefit plan actuarial losses		-	-	-	-	-	(142,253,296)	(7,326,084)	(149,579,380)
<b>Transactions with owners of the Company, recognized directly in equity</b>									
Dividends		-	-	-	-	-	(117,264,016)	(5,988,909)	(123,252,925)
Issue of hybrid bonds		-	-	428,589,000	-	-	-	-	428,589,000
Interest for hybrid bonds		-	-	-	-	-	(707,467)	-	(707,467)
Changes in ownership in subsidiaries		-	-	-	10,247,557	-	-	143,627,642	153,875,199
<b>Balance at December 31, 2014</b>	₩	<u>380,000,000</u>	<u>1,109,309,014</u>	<u>428,589,000</u>	<u>(1,762,535,173)</u>	<u>746,492,455</u>	<u>14,271,926,021</u>	<u>1,464,794,345</u>	<u>16,638,575,662</u>

See accompanying notes to the consolidated financial statements.



HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2014 and 2013**

(In thousands of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities</b>			
Profit (loss) for the year		₩ (2,206,064,695)	146,303,386
Adjustments		3,846,015,292	1,028,888,599
Cash generated from operations	41	1,639,950,597	1,175,191,985
Interest received		305,835,273	320,455,093
Interest paid		(410,302,676)	(443,489,722)
Dividends received		92,296,690	52,965,217
Income taxes paid		(121,105,136)	(612,323,087)
<b>Net cash provided by operating activities</b>		<u>1,506,674,748</u>	<u>492,799,486</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of short-term financial assets		281,966,263	563,361,007
Proceeds from collection of other receivables		9,489,599	8,110,000
Proceeds from sale of investments in associates		7,934,700	5,090,313
Proceeds from sale of investments in subsidiaries, net of cash transferred		105,916,775	68,456,425
Proceeds from sale of long-term financial assets		1,259,339,673	398,583,959
Proceeds from collection of long-term other receivables		70,034,423	185,967,101
Proceeds from sale of property, plant and equipment		127,075,010	85,864,801
Proceeds from sale of intangible assets		5,843,993	4,221,360
Proceeds from sale of investment property		15,236,500	3,666,402
Proceeds from government grants		5,782,891	1,702,339
Proceeds from collection of other non-current assets		669,690	-
Acquisition of short-term financial assets		(289,406,901)	(587,595,177)
Acquisition of other receivables		(25,089)	(2,312,377)
Acquisition of investments in associates and joint venture		(20,133,500)	(31,346,858)
Acquisition of investments in subsidiaries, net of cash acquired		-	(2,000,000)
Acquisition of long-term financial assets		(561,192,828)	(461,385,620)
Acquisition of long-term other receivables		(58,065,178)	(89,996,020)
Acquisition of investment property		(402)	(60,744)
Acquisition of property, plant and equipment		(1,487,037,877)	(1,303,510,909)
Acquisition of intangible assets		(64,899,898)	(99,310,726)
Acquisition of other non-current assets		(6,018)	(10,905,411)
<b>Net cash used in investing activities</b>		<u>(591,478,174)</u>	<u>(1,263,400,135)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term financial liabilities		24,492,641,246	28,384,487,181
Proceeds from long-term financial liabilities		4,062,670,622	1,920,632,273
Capital contribution from non-controlling interests		106,683,433	43,966,037
Repayment of short-term financial liabilities		(27,583,833,012)	(28,488,829,701)
Repayment of long-term financial liabilities		(399,299,658)	(701,872,731)
Issue of hybrid bonds		428,589,000	-
Dividends paid		(117,264,016)	(146,468,674)
Dividends and distribution to non-controlling interests		(3,949,556)	(10,184,412)
<b>Net cash provided by financing activities</b>		<u>986,238,059</u>	<u>1,001,729,973</u>
Effects of exchange rate changes on cash and cash equivalents		(8,732,354)	(2,206,268)
<b>Net increase in cash and cash equivalents</b>		<u>1,892,702,279</u>	<u>228,923,056</u>
Cash and cash equivalents at January 1		<u>1,336,613,209</u>	<u>1,107,690,153</u>
<b>Cash and cash equivalents at December 31</b>		<u>₩ 3,229,315,488</u>	<u>1,336,613,209</u>

See accompanying notes to the consolidated financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2014 and 2013

**1. Reporting Entity**

**(1) Description of the controlling company**

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

In August 1999, the Company was listed on the Korea Exchange. As of December 31, 2014, the Company's major stockholders consist of Mong-Joon Chung (10.15%) and Hyundai Mipo Dockyard Co., Ltd. (7.98%).

**(2) Consolidated subsidiaries**

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

<b>Company</b>	<b>Main business</b>	<b>Ownership (%)</b>	<b>Location</b>	<b>Fiscal year end</b>
Hyundai Samho Heavy Industries Co., Ltd.	Shipbuilding	94.92	Korea	December
Hyundai Mipo Dockyard Co., Ltd.(*1,2)	Shipbuilding	43.51	Korea	December
Hyundai Oilbank Co., Ltd.	Manufacturing of petroleum products	91.13	Korea	December
Hyundai Heavy Material Service	Sale and manufacture of machinery equipment for shipbuilding	100.00	Korea	December
KOMAS Corporation	Shipping	100.00	Korea	December
Hyundai Energy & Resources Co., Ltd.(*1)	Services for crude oil and natural gas mining	90.00	Korea	December
Mipo Engineering Co., Ltd.(*1)	Other engineering services	100.00	Korea	December
Ulsan Hyundai Football Club Co., Ltd.	Football club	100.00	Korea	December
Hotel Hyundai Co., Ltd.	Hotel operation	100.00	Korea	December
HI Investment & Securities Co., Ltd.(*1)	Securities brokerage	83.24	Korea	December
HI Asset Management Co., Ltd.(*1)	Asset management	99.99	Korea	December
Hyundai Finance Corporation	Granting of credit	67.49	Korea	December
Hyundai Venture Investment Corporation(*1)	Granting of credit	68.38	Korea	December
Hyundai Futures Corporation(*1)	Entrust and brokerage of futures transactions	65.22	Korea	March
Hyundai Investment Fund 1 on Patent Technology(*1)	Other financial business	-	Korea	December
LS Leading Solution Private Security Investment Trust 22 (Equity)	Other financial business	-	Korea	December
LS Leading Solution Private Security Investment Trust 35 (Equity)	Other financial business	-	Korea	December
Eastspring Private Global Asset Allocation & Mining & Gold Fund of Funds Investment Trust A-1	Other financial business	-	Korea	December
Hyundai Ship Private Fund 1(*1)	Other financial business	100.00	Korea	December
HI Himsen Private Funds Investment Trust 1 (*1,3)	Other financial business	21.33	Korea	December

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
For the years ended December 31, 2014 and 2013

**1. Reporting Entity, Continued**

**(2) Consolidated subsidiaries, continued**

<u>Company</u>	<u>Main business</u>	<u>Ownership (%)</u>	<u>Location</u>	<u>Fiscal year end</u>
Hyundai Oil Terminal Co., Ltd.(*1)	Oil storage business	70.00	Korea	December
Hyundai and Shell Base Oil Co., Ltd.(*1)	Manufacturing of base oil	60.00	Korea	December
Hyundai Chemical Co., Ltd.(*1)	Crude Oil refining business	60.00	Korea	December
Hyundai (Jiangsu) Construction Machinery Co., Ltd.(*1)	Sale and manufacture of machinery equipment for construction	60.00	China	December
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.(*1)	Sale and manufacture of machinery equipment for construction	60.00	China	December
HHI China Investment Co., Ltd.	Holding company	100.00	China	December
Hyundai Financial Leasing Co., Ltd.(*1)	Finance and operating leases	88.02	China	December
Hyundai Heavy Industries (China) Electric Co., Ltd.(*1)	Sale and manufacture of switchboards for electric distribution	100.00	China	December
Yantai Hyundai Moon Heavy Industries Co., Ltd.(*1)	Sale and manufacture of industrial boilers	55.00	China	December
Changzhou Hyundai Hydraulic Machinery Co., Ltd.(*1)	Sale and manufacture of hydraulic cylinders for construction equipment	100.00	China	December
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	Sale and manufacture of wheel loaders	100.00	China	December
Weihai Hyundai Wind Power Technology Co., Ltd.(*1)	Sale and manufacture of facilities for wind power generation	80.00	China	December
Hyundai Heavy Industries (Shanghai) R&D Co., Ltd.(*1)	Research and development of technology for construction machinery, engine and electric equipment	100.00	China	December
Hyundai Oilbank (Shanghai) Co., Ltd.(*1)	Trading in petrochemical products	100.00	China	December
HDO Singapore Pte. Ltd.(*1)	Trading in crude oil and petrochemical products, chartering	100.00	Singapore	December
Hyundai-Vinashin Shipyard Co., Ltd.(*1)	Ship repair	65.00	Vietnam	December
Hyundai Construction Equipment India PVT., Ltd.	Sale and manufacture of machinery equipment for construction	100.00	India	March
Hyundai Transformers and Engineering India Pvt. Ltd.	Sale and manufacture of transformers	100.00	India	March

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1. Reporting Entity, Continued

(2) Consolidated subsidiaries, continued

<u>Company</u>	<u>Main business</u>	<u>Ownership (%)</u>	<u>Location</u>	<u>Fiscal year end</u>
Hyundai Construction Equipment Americas, Inc	Sale of machinery equipment for construction	100.00	America	December
Hyundai Power Transformers USA, INC	Sale and manufacture of industrial electric equipment	100.00	America	December
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment	100.00	America	December
PHECO Inc.	Design services for offshore facilities	100.00	America	December
HHI Battery CO., Ltd.	Manufacturing	100.00	Canada	December
Hyundai Heavy Industries Brazil - Real Estate Developments	Real estate development	97.09	Brazil	December
Hyundai Heavy Industries Brazil - Manufacturing and Trading of Construction Equipment	Manufacture, trade and repair of heavy equipment	97.09	Brazil	December
Hyundai Heavy Industries Miraflores Power Plant Inc.	Manufacturing	100.00	Panama	December
Vladivostok Business Center	Hotel operation	100.00	Russia	December
Hyundai Khorol Agro Ltd.	Agriculture	95.24	Russia	December
Hyundai Mikhailovka Agro Ltd.	Agriculture	100.00	Russia	December
Hyundai Electrosystems Co., Ltd.	Manufacture of high-voltage circuit breakers	100.00	Russia	December
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction	100.00	Belgium	December
Hyundai Heavy Industries Co. Bulgaria	Sale and manufacture of transformers	99.09	Bulgaria	December
Hyundai Technologies Center Hungary Kft.	Research and development of technology	100.00	Hungary	December
Hyundai Heavy Industries France SAS	Manufacturing	100.00	France	December
Jahnel-Kestermann Getriebewerke GmbH	Designing and manufacture of gearboxes	100.00	Germany	December
JaKe Service GmbH(*1)	Gearbox repair	100.00	Germany	December
HHI MAURITIUS LIMITED	Manufacturing	100.00	Mauritius	December
MS Dandy Ltd.(*1)	Ship rental service	100.00	Marshall Islands	December
Hyundai West Africa Limited	Manufacture of other transport equipment	100.00	Nigeria	December
Hyundai Arabia Company LLC.	Industrial plant construction	70.00	Saudi Arabia	December
Grande Ltd. (*1)	Ship rental service	100.00	Marshall island	December

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**1. Reporting Entity, Continued**

**(2) Consolidated subsidiaries, Continued**

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

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

(\*3) The Group is considered to have control of HI Himsen Private Funds Investment Trust 1, structured entity operated by HI Asset Management Co., Ltd., considering the proportion of ownership interests held by the Group and the terms of contractual arrangements.

**(3) Changes in scope of consolidation**

(i) Subsidiaries newly subject to consolidation in 2014 are as follows:

<u>Company</u>	<u>Reason</u>
Hyundai Chemical Co., Ltd. Grande Ltd. HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	Commencing control resulting from the new acquisition

(ii) Subsidiaries no longer subjected to consolidation in 2014 are as follows:

<u>Company</u>	<u>Reason</u>
Hyundai Investment Fund 1 on Patent Technology LS Leading Solution Private Security Investment Trust 22 (Equity) LS Leading Solution Private Security Investment Trust 35 (Equity) Eastspring Private Global Asset Allocation & Mining & Gold Fund of funds Investment Trust A-1 HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	Ceasing control upon disposal     Disposal of partial interest

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**1. Reporting Entity, Continued**

**(4) Condensed financial information of consolidated subsidiaries**

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

*(In millions of won)*

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

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**1. Reporting Entity, Continued**

**(4) Condensed financial information of consolidated subsidiaries, continued**

(\*) The significant consolidated subsidiary as of December 31, 2014 and 2013 is Hyundai Mipo Dockyard Co., Ltd., and percentage of ownership for non-controlling interests are 56.49% and 54.79% (in the case of consideration of treasury stock, 55.90% and 53.84%) as of December 31, 2014 and 2013, respectively.

In the year ended December 31, 2014, cash and cash equivalents increased to ~~₩~~470,057 million (resulting from cash flows in operating activities ~~₩~~(-249,422 million, investing activities ~~₩~~207,923 million, and financing activities ~~₩~~511,556 million) and the non-controlling interests received dividends amounting to ~~₩~~8,438 million. Also the profit (loss) for the period attributable to non-controlling interest was ~~₩~~(-404,246 million (effective ownership 58.14%) and equity attributable to non-controlling interest was ~~₩~~1,053,316 million as of December 31, 2014.

In the year ended December 31, 2013, cash and cash equivalents increased to ~~₩~~83,368 million (resulting from cash flows in operating activities ~~₩~~44,023 million, investing activities ~~₩~~(-32,238 million, and financing activities ~~₩~~71,583 million) and the non-controlling interests received dividends amounting to ~~₩~~15,594 million. Also the profit (loss) for the period attributable to non-controlling interest was ~~₩~~(-88,847 million (effective percentage of ownership 56.19%) and equity attributable to non-controlling interest was ~~₩~~1,769,480 million as of December 31, 2013.

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**(4) Condensed financial information of consolidated subsidiaries, continued**

(i) Condensed financial information of significant consolidated subsidiaries as of and for the year ended December 31, 2013 is summarized as follows, Continued

(In millions of won)

Company	Assets	Liabilities	Equity	Sales	Profit (loss)	Total comprehensive income
Hyundai Samho Heavy Industries Co., Ltd.	₩ 6,828,217	3,278,007	3,550,210	3,506,163	(52,051)	26,124
Hyundai Mipo Dockyard Co., Ltd.	5,502,458	2,330,748	3,171,710	3,487,040	(187,913)	(45,513)
Hyundai Oilbank Co., Ltd.	8,597,936	5,544,470	3,053,466	20,295,635	152,358	165,841
Hyundai Heavy Material Service KOMAS Corporation	239,429	30,378	209,051	509,890	4,792	4,950
	130,209	1,429	128,780	440	8,051	8,051
HI Investment & Securities Co., Ltd.	5,163,564	4,604,585	558,979	510,560	(12,067)	(8,487)
Hyundai Finance Corporation	218,086	68,783	149,303	14,098	1,850	1,053
Hyundai Venture Investment Corporation	73,375	844	72,531	10,440	3,297	2,607
Hyundai Futures Corporation	163,957	118,889	45,068	27,056	(582)	(1,596)
LS Leading Solution Private Security Investment Trust 22 (Equity)	90,864	13	90,851	2,904	2,822	(11,578)
Hyundai Oil Terminal Co., Ltd.	107,131	32,790	74,341	3,044	(340)	(407)
Hyundai and Shell Base Oil Co., Ltd.	180,567	88,995	91,572	-	2,051	2,047
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	525,881	277,272	248,610	366,126	(18,363)	(14,566)
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	247,939	133,264	114,675	217,573	137	1,588
HHI China Investment Co., Ltd.	400,225	42,851	357,374	20,358	6,040	10,366
Hyundai Financial Leasing Co., Ltd.	683,624	416,155	267,469	91,511	17,515	20,529
Hyundai Heavy Industries (China) Electric Co., Ltd.	180,756	130,383	50,373	166,290	2,171	2,735
Yantai Hyundai Moon Heavy Industries Co., Ltd.	63,115	23,741	39,374	88,330	366	853
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	113,439	90,063	23,376	65,195	(16,399)	(16,414)
Weihai Hyundai Wind Power Technology Co., Ltd.	49,950	34,900	15,050	6,796	(2,485)	(2,207)
Hyundai Oilbank (Shanghai) Co., Ltd.	82,448	79,220	3,228	475,138	1,304	1,299
HDO Singapore Pte. Ltd.	517,360	508,518	8,842	5,672,433	1,376	1,113
Hyundai-Vinashin Shipyard Co., Ltd.	372,804	254,274	118,530	197,459	(59,820)	(59,820)
Hyundai Construction Equipment India PVT., Ltd.	131,966	116,130	15,836	135,744	(4,504)	(7,649)
Hyundai Construction Equipment Americas, Inc.	300,462	261,520	38,942	435,770	6,043	5,328
Hyundai Power Transformers USA, Inc.	144,265	119,703	24,562	75,178	(32,527)	(33,654)
Hyundai Ideal Electric Co.	66,664	40,363	26,301	69,931	(1,414)	(1,777)
Hyundai Heavy Industries Brasil - Real Estate Developments	64,300	41,483	22,817	6,784	711	(3,222)
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	408,956	384,358	24,598	141,766	(31,295)	36,457
Hyundai Electrosystems Co., Ltd.	53,333	18,932	34,401	-	(4,689)	(8,147)
Hyundai Heavy Industries Europe N.V.	163,507	105,670	57,837	309,126	4,443	5,918



HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
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**2. Basis of Preparation**

**(1) Statement of compliance**

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

The consolidated financial statements were authorized for issue by the Board of Directors on February 12, 2015 and will be submitted for approval to the shareholders' meeting to be held on March 27, 2015.

**(2) Basis of measurement**

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

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

**(3) Functional and presentation currency**

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

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

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

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

(i) Judgments

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

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

- Note 15, 17 and 18 – Impairment test: key assumptions underlying recoverable amounts, including the recoverability of property, plant and equipment; intangible assets; the existence of objective evidence for impairment of available-for-sale financial assets.
- Note 24 – Measurement of defined benefit obligations: key actual assumptions

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**2. Basis of Preparation, Continued**

- Notes 25, 44 and 45 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources
- Note 33 – Revenue recognition in proportion to stage of completion
- Note 39 – Recognition of deferred tax assets: availability of future taxable profit against which carryforward tax losses can be used

(iii) Measurement of fair value

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

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

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

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

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

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

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

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

**3. Changes in accounting policies**

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

The Group has adopted the following amendments to standards and new interpretation with a date of initial application of January 1, 2014.

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**3. Changes in accounting policies, Continued**

- Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032)
- Investment Entities (Amendments to K-IFRS 1110, K-IFRS 1112 and K-IFRS 1027)
- K-IFRS 2121, 'Levies'
- Amendments to K-IFRS 1039 'Financial Instruments: Recognition and Measurement'.

The nature and effects of the changes are explained below.

(i) Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032)

The Group has adopted amendments to K-IFRS 1032, 'Offsetting Financial Assets and Financial Liabilities' since January 1, 2014. The amendments require that a financial assets and a financial liability are offset and the net amount is presented in the statement of financial position when an entity currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties.

The entity intends to settle on a net basis, if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

In accordance with the transitional requirements of K-IFRS 1032, the Group applied the amendments retrospectively. The change in accounting policy had no impact on the consolidated financial statements.

(ii) Investment Entities (Amendments to K-IFRS 1110, K-IFRS 1112 and K-IFRS 1027)

The Group has adopted amendments to K-IFRS 1110, K-IFRS 1112 and K-IFRS 1027, 'Investment Entities' since January 1, 2014.

The amendments define an investment entity and provide an exception to the consolidation requirements in K-IFRS 1110 for investment entities by instead requiring investment entities to measure their investments in particular subsidiaries at fair value through profit or loss in accordance with K-IFRS 1039 'Financial Instruments: Recognition and Measurement.' The amendments also provide related disclosure and separate financial statement requirements for investment entities.

(iii) K-IFRS No.2121, 'Levies'

The Group has adopted K-IFRS No.2121, 'Levies' since January 1, 2014. K-IFRS No. 2121 is an Interpretation of K-IFRS No. 1037 Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments. K-IFRS 1037 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (or 'obligating event'). K-IFRS 2121 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The interpretation does not provide guidance on the accounting for the costs arising from recognizing the liability to pay a levy. Other K-IFRSs should be applied to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

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**3. Changes in accounting policies, Continued**

(iii) K-IFRS No.2121, 'Levies', continued

The Group retrospectively applied the interpretation in accordance with the transitional requirements. The change in accounting policy had no impact on the consolidated financial statements.

(iv) Amendments to K-IFRS 1039 'Financial Instruments: Recognition and Measurement'

The Group has adopted the amendments to K-IFRS 1039 'Financial Instruments: Recognition and Measurement' since January 1, 2014. As a result, hedge accounting is not discontinued if the hedging instrument is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except as necessary for the novation. The change in accounting policy had no impact on the consolidated financial statements.

**4. Significant Accounting Policies**

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

**(1) Operating segments**

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

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

**(2) Basis of consolidation**

(i) Business combinations

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

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

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

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**4. Significant Accounting Policies, Continued**

**(2) Basis of consolidation, continued**

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

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

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

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

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

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

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

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

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

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**4. Significant Accounting Policies, Continued**

**(2) Basis of consolidation, continued**

(vii) Acquisitions from entities under common control

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

**(3) Cash and cash equivalents**

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

Cash and cash equivalents as of December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Cash	₩ 27,700	15,579
Current deposit	44,956	42,419
Ordinary deposit	247,681	379,161
MMF	301,938	47,612
MMDA	1,152,454	60,652
Others	1,454,586	791,190
	<u>₩ 3,229,315</u>	<u>1,336,613</u>

**(4) Inventories**

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

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

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**4. Significant Accounting Policies, Continued**

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

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

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

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

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**4. Significant Accounting Policies, Continued**

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

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

(i) Hedge accounting

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

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

*Fair value hedge*

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

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

*Cash flow hedge*

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

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

(ii) Separable embedded derivatives

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

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

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



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**4. Significant Accounting Policies, Continued**

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

(iii) Other derivative financial instruments

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

**(7) Impairment of financial assets**

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

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

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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

(iii) Available-for-sale financial assets

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

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**4. Significant Accounting Policies, Continued**

**(8) Property, plant and equipment**

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

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

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

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

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

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**4. Significant Accounting Policies, Continued**

**(9) Intangible assets**

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

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

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

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

(i) Research and development

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

(ii) Subsequent expenditures

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

**(10) Government grants**

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

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

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

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**4. Significant Accounting Policies, Continued**

**(11) Investment property**

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

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

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

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

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

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

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

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

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

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

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**4. Significant Accounting Policies, Continued**

**(13) Leases**

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

(i) Finance leases

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

(ii) Operating leases

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

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

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

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

**(15) Borrowing costs**

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

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period. In addition, the Group capitalized borrowing costs amounting to ₩142,155 million and ₩87,892 million, applying capitalization rate of 2.64%~4.51% and 2.77%~4.60% for the years ended December 31, 2014 and 2013, respectively.

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**4. Significant Accounting Policies, Continued**

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

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

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

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

(ii) Other financial liabilities

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

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

**(17) Employee benefits**

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: defined contribution plans

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

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**4. Significant Accounting Policies, Continued**

**(17) Employee benefits, continued**

(iv) Retirement benefits: defined benefit plans

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

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

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

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

(v) Termination benefits

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

**(18) Provisions**

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

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

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

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

(i) Provision for construction warranty

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

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**4. Significant Accounting Policies, Continued**

**(18) Provisions, continued**

(ii) Provision for product warranty

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

(iii) Other provision

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

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

**(19) Foreign currency**

(i) Foreign currency transactions

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

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

(ii) Foreign operations

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

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

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

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

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



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**4. Significant Accounting Policies, Continued**

**(19) Foreign currency, continued**

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

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

**(20) Equity capital**

(i) Equity instruments

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

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

(ii) Hybrid bonds

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

**(21) Share-based payment transactions**

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

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

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**4. Significant Accounting Policies, Continued**

**(22) Revenue**

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

(i) Goods sold

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

(ii) Customer loyalty programs

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

(iii) Services

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

(iv) Construction contracts

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

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

(v) Commissions

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

(vi) Rental income

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

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**4. Significant Accounting Policies, Continued**

**(23) Incidental loan income and expenses**

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

**(24) Accounting for disposal of loans**

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

**(25) Finance income and finance costs**

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

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

**(26) Income taxes**

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

(i) Current tax

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

(ii) Deferred tax

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

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

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**4. Significant Accounting Policies, Continued**

**(26) Income taxes, continued**

(ii) Deferred tax, continued

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

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

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

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

**(27) Earnings per share**

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

**(28) New standards and interpretations not yet adopted**

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group for annual periods beginning after January 1, 2014, and the Group has not early adopted them. Management believes the impact of the amendments on the Group's consolidated financial statements is not significant.

K-IFRS 1019 'Employee Benefits' – Employee contributions

Amendments to K-IFRS 1019 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, the entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits.

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**5. Risk Management**

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

- Credit risk
- Liquidity risk
- Market risk

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

**(1) Financial risk management**

1) Risk management framework

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

2) Credit risk

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

(i) Trade and other receivables

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

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

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

(ii) Investments

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

(iii) Guarantees

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

3) Liquidity risk

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

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**5. Risk Management, Continued**

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

3) Liquidity risk, continued

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

4) Market risk

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

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

(i) Currency risk

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

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

(ii) Interest rate risk

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

(iii) Other market price risk

The Group is exposed to the price risk arising from available-for-sale equity securities.

The effect of 1% changes in price of marketable available-for-sale securities on the total comprehensive income for the years ended December 31, 2014 and 2013 is ₩20,659 million and ₩29,967 million, respectively.

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**5. Risk Management, Continued**

**(2) Capital management**

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

The Group's liability to equity ratio and net borrowing to equity ratio as of December 31, 2014 and 2013 are as follows:

<i>(In millions of won, except equity ratio)</i>	<u>2014</u>	<u>2013</u>
Total liabilities	₩ 36,745,842	34,175,380
Total equity	16,638,576	19,029,592
Cash and deposits(*1)	3,619,302	1,759,626
Borrowings(*2)	16,543,127	15,843,157
Liability to equity ratio	220.85%	179.59%
Net borrowing to equity ratio(*3)	77.67%	74.01%

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

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

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

The interest coverage ratio and basis of calculation for the years ended December 31, 2014 and 2013 are as follows.

<i>(In millions of won, except ratio)</i>	<u>2014</u>	<u>2013</u>
Operating profit (loss)	₩ (3,249,455)	801,983
Interest	255,332	322,751
Interest coverage ratio	(*)	2.48

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

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**6. Short-term and Long-term Financial Assets**

Short-term and long-term financial assets as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014		2013	
	Current	Non-current	Current	Non-current
Financial instruments	₩ 384,845	5,142	407,867	15,146
Held-for-trading investments	3,936,165	31,943	3,882,033	5,717
Financial assets at fair value through profit or loss	234,009	154,752	191,489	63,783
Available-for-sale financial assets	176,881	2,304,193	202,070	3,237,958
Others	10,623	-	8,870	-
	₩ 4,742,523	2,496,030	4,692,329	3,322,604

**7. Restricted Financial Instruments and Others**

Financial instruments and others, which are restricted in use, as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	Description	Financial institutions	2014	2013	Restrictions
Short-term financial assets	Investor deposits and others	Korea Securities Finance Corporation and others	₩ 39,650	42,551	Investor deposits and others
Trade and other receivables			303,327	357,601	
Long-term financial assets	Deposits in won	Korea Exchange Bank and others	122	201	Guarantee deposits for checking accounts
			₩ 343,099	400,353	



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

(1) Trade and other receivables as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014		2013	
	Current	Non-current	Current	Non-current
<b>Trade receivables:</b>				
Trade receivables	₩ 5,095,505	578,820	6,097,909	805,182
Allowance for doubtful accounts	(1,064,384)	(201,337)	(619,521)	(321,340)
	<u>4,031,121</u>	<u>377,483</u>	<u>5,478,388</u>	<u>483,842</u>
<b>Loan receivables:</b>				
Loan receivables	303,443	99,832	241,668	114,218
Allowance for doubtful accounts	(407)	(1,698)	(418)	(5,237)
	<u>303,036</u>	<u>98,134</u>	<u>241,250</u>	<u>108,981</u>
<b>Other receivables:</b>				
Other accounts receivable	1,075,298	2,882	946,235	269
Allowance for doubtful accounts	(208,409)	(249)	(230,852)	(239)
Accrued income	46,516	-	58,383	-
Allowance for doubtful accounts	(102)	-	(102)	-
Loans	5,273	208,237	10,115	220,012
Guarantee deposits	10,476	114,797	46,932	115,362
Deposits	261,015	-	202,420	-
Receivable for finance leases	213,031	130,767	305,364	162,885
Allowance for doubtful accounts	(3,143)	(1,919)	(4,568)	(2,427)
	<u>1,399,955</u>	<u>454,515</u>	<u>1,333,927</u>	<u>495,862</u>
	<u>₩ 5,734,112</u>	<u>930,132</u>	<u>7,053,565</u>	<u>1,088,685</u>

(2) Due from customers for contract work as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014		2013	
	Current	Current	Current	Current
Due from customers for contract work	₩	7,154,391		6,676,658
Allowance for doubtful accounts		(346)		(1,546)
	₩	<u>7,154,045</u>		<u>6,675,112</u>

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**9. Finance Leases**

(1) Gross investment in leases and the present value of minimum lease payments receivable as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014		2013	
	Minimum lease payments	Unguaranteed residual value	Minimum lease payments	Unguaranteed residual value
Less than one year	₩ 213,031	-	305,364	-
Later than one year between five years	130,767	-	162,885	-
Total	<u>343,798</u>	<u>-</u>	<u>468,249</u>	<u>-</u>
Unearned finance income	-	-	-	-
Net investment in the lease	₩ 343,798	-	468,249	-

(2) There are no contingent rents incurred for the years ended December 31, 2014 and 2013.

**10. Inventories**

Inventories as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014			2013		
	Acquisition cost	Provision for inventory valuation	Carrying amount	Acquisition cost	Provision for inventory valuation	Carrying amount
Merchandise	₩ 383,805	(20,464)	363,341	290,677	(19,811)	270,866
Finished goods	701,579	(24,292)	677,287	942,392	(23,522)	918,870
Work-in-progress	1,518,132	(113,486)	1,404,646	1,440,229	(112,944)	1,327,285
Raw materials	2,035,170	(9,576)	2,025,594	1,766,794	(10,010)	1,756,784
Supplies	45,807	(778)	45,029	50,669	(799)	49,870
Materials-in-transit	1,306,306	-	1,306,306	1,805,612	-	1,805,612
	<u>₩ 5,990,799</u>	<u>(168,596)</u>	<u>5,822,203</u>	<u>6,296,373</u>	<u>(167,086)</u>	<u>6,129,287</u>

The write-down of inventories to net realizable value amounting to ₩1,510 million and the reversal of write-downs amounting to ₩3,838 million are included in cost of sales for the years ended December 31, 2014 and 2013, respectively.

**11. Other Assets**

Other assets as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014		2013	
	Current	Non-current	Current	Non-current
Advance payments	₩ 2,409,984	-	2,239,925	-
Allowance for doubtful accounts	(62)	-	(61)	-
Prepaid expenses	485,235	50,158	537,893	74,389
Plan assets	-	1,651	-	18,019
Others	1,103	12,613	2,508	14,504
	<u>₩ 2,896,260</u>	<u>64,422</u>	<u>2,780,265</u>	<u>106,912</u>

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12. Investments in Associates

(1) Investments in associates as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won, except percentage of ownership)

Associates	Location	Fiscal year end	Business	2014		2013	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
New Korea Country Club	Korea	December	Country club	40.00	₩ 33,993	40.00	₩ 33,672
Hyundai Merchant Marine Co., Ltd.(*1)	Korea	December	Shipping	-	-	20.03	69,815
Taebaek Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	35.00	7,334	35.00	7,348
Muju Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	45.00	4,871	45.00	4,873
Pyeongchang Wind Power Co., Ltd.(*2)	Korea	December	Sale and manufacture of facilities for wind power generation	23.00	3,397	35.00	840
Jinan Jangsu Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	32.00	99	32.00	99
Changjuk Wind Power Co., Ltd.	Korea	December	Sale and manufacture of facilities for wind power generation	43.00	9,609	43.00	9,440
Hyundai Corporation	Korea	December	Exporting	22.36	211,305	22.36	181,389
Daesung Win-Win Fund	Korea	December	Investment service in culture contents field	23.81	10,268	23.81	10,597
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	Korea	December	Venture capital	40.00	4,586	40.00	5,561
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	Korea	December	Venture capital	37.50	9,906	37.50	5,579
The Second Partners Win-Win Investment Fund	Korea	December	Collective investment	-	-	23.33	245
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	Korea	December	Collective investment	21.21	4,935	21.21	5,177
Qinhuangdao Shouqin Metal Materials Co., Ltd.	China	December	Thick plate-oriented comprehensive iron manufacturing	20.00	-	20.00	9,433
PT. HYUNDAI MACHINERY INDONESIA	Indonesia	December	Import and wholesale of machinery equipment for construction	20.83	-	20.83	-
Hyundai Primorye Ltd.	Russia	December	Farmland leasing service	49.99	3,473	49.99	4,807
Hyundai Green Industries Co., W.L.L.	Kuwait	December	Education	49.00	920	49.00	917
Tribridge Capital Management	Cayman	December	Asset management	23.93	-	23.93	-
Mahy E-Cell	Canada	December	Manufacture of electric vehicle batteries	-	-	40.00	13,494
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	Korea	December	Other financial	41.25	3,635	-	-
				₩	<u>308,331</u>	₩	<u>363,286</u>

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**12. Investments in Associates, Continued**

(1) Investments in associates as of December 31, 2014 and 2013 are summarized as follows, Continued:

(\*1) For the year ended December 31, 2014, the Group's percentage of ownership of Hyundai Merchant Marine Co., Ltd., which used to be an associate, decreased to below 20% due to disproportionate issuance of capital by the investee. As a result, the Group no longer has significant influence in Hyundai Merchant Marine Co., Ltd. and its investments have been reclassified to available-for-sale financial asset.

(\*2) As of December 31, 2014, The Group collateralized its equity securities for Pyeongchang Wind Power Co., Ltd., which is a related party(note 46).

(2) The fair value of marketable securities of associates as of December 31, 2014 and 2013 is summarized as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Hyundai Merchant Marine Co., Ltd.	₩ (*)	386,497
Hyundai Corporation	149,783	176,744

(\* ) As of December 31, 2014 Hyundai Merchant Marine Co., Ltd. was not associate, so the Group does not disclose the fair value.

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12. Investments in Associates, Continued

(3) Condensed financial information of associates as of and for the years ended December 31, 2014 and 2013 is summarized as follows:

(In millions of won)

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

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12. Investments in Associates, Continued

(3) Condensed financial information of associates as of and for the years ended December 31, 2014 and 2013 is summarized as follows, continued

(In millions of won)

	2013										
	Condensed financial information of associates										Dividends received from investments in associates
	Current assets	Non- Current assets	Current liabilities	Non- Current liabilities	Equity	Sales	Operating income (loss)	Profit (loss)	Other comprehensive income	Total comprehensive income	
New Korea Country Club	₩ 15,916	16,033	1,178	3,264	27,507	11,270	1,315	1,496	-	1,496	200
Hyundai Merchant Marine Co., Ltd.	2,370,323	6,474,521	4,359,886	3,797,316	687,642	8,152,627	(330,171)	(715,318)	28,538	(686,780)	-
Taebaek Wind Power Co., Ltd.	9,287	49,413	3,949	32,546	22,205	11,595	7,684	7,292	-	7,292	-
Muju Wind Power Co., Ltd.	10,582	248	-	-	10,830	-	(23)	(13)	-	(13)	-
Pyeongchang Wind Power Co., Ltd.	1,540	860	1	-	2,399	-	(93)	(55)	-	(55)	-
Jinan Jangsu Wind Power Co., Ltd.	309	-	-	-	309	-	(2)	(1)	-	(1)	-
Changjuk Wind Power Co., Ltd.	12,232	39,420	2,498	27,968	21,186	11,818	8,423	7,675	-	7,675	-
Hyundai Corporation	1,225,562	492,569	1,017,470	106,278	594,383	5,082,502	21,956	108,246	84,700	192,946	2,496
Daesung Win-Win Fund	38,637	6,034	166	-	44,505	2,896	2,890	2,248	-	2,248	-
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	4,857	9,169	123	-	13,903	1,406	(1,907)	(1,907)	-	(1,907)	-
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	4,046	11,022	190	-	14,878	170	(576)	(576)	-	(576)	-
The Second Partners Win-Win Investment Fund	202	1,000	151	-	1,051	131	(478)	(478)	-	(478)	-
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	1,830	22,753	177	-	24,406	46	(680)	(680)	-	(680)	-
Qinhuangdao Shouqin Metal Materials Co., Ltd.	641,635	1,404,148	1,833,494	165,124	47,165	1,372,803	(156,563)	(169,937)	28,878	(141,059)	-
PT. Hyundai Machinery Indonesia	15,875	2,736	20,331	-	(1,720)	43,688	2,271	(2,116)	386	(1,730)	-
HYUNDAI Primorye Ltd.	1,043	7,200	71	-	8,172	628	547	468	(780)	(312)	-
Hyundai Green Industries Co., W.L.L.	-	1,871	-	-	1,871	-	-	-	(153)	(153)	-
Tribridge Capital Management	690	311	264	-	737	131	(246)	(246)	(6)	(252)	-
MAHY E-CELL	753	27,099	584	477	26,791	-	-	(6,453)	(2,377)	(8,830)	-
	₩ 4,355,319	8,566,407	7,240,533	4,132,973	1,548,220	14,691,711	(445,653)	(770,355)	139,186	(631,169)	2,696

HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
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12. Investments in Associates, Continued

(4) Changes in equity-method accounted investees for the years ended December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

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

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

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12. Investments in Associates, Continued

(4) Changes in equity-method accounted investees for the years ended December 31, 2014 and 2013 are summarized as follows, continued

(In millions of won)

Associates	2013					
	Beginning balance	Acquisition (disposal)	Share of profit of equity accounted investees	Changes in equity of equity accounted investees	Dividends received	Ending balance
New Korea Country Club	₩ 33,305	-	567	-	(200)	33,672
Hyundai Merchant Marine Co., Ltd.	219,645	-	(129,211)	(20,619)	-	69,815
Taebaek Wind Power Co., Ltd.	4,772	-	2,576	-	-	7,348
Muju Wind Power Co., Ltd.	4,879	-	(6)	-	-	4,873
Pyeongchang Wind Power Co., Ltd.	859	-	(19)	-	-	840
Jinan Jangsu Wind Power Co., Ltd.	99	-	-	-	-	99
Changiuk Wind Power Co., Ltd.	5,838	-	3,602	-	-	9,440
Hyundai Corporation	168,896	-	17,407	(2,418)	(2,496)	181,389
Daesung Win-Win Fund	10,061	-	536	-	-	10,597
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	6,324	-	(763)	-	-	5,561
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	3,395	2,400	(216)	-	-	5,579
The Second Partners Win-Win Investment Fund	4,648	(4,338)	(65)	-	-	245
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	3,354	1,967	(144)	-	-	5,177
Qinhuangdao Shouqin Metal Materials Co., Ltd.	37,645	-	(33,987)	5,775	-	9,433
PT. Hyundai Machinery Indonesia(*)	69	-	(66)	(3)	-	-
Hyundai Primorye Ltd.	4,963	-	234	(390)	-	4,807
Hyundai Green Industries Co., W.L.L.	992	-	-	(75)	-	917
Tribridge Capital Management (*)	6,478	-	(6,483)	5	-	-
MAHY E-CELL	10,806	6,220	(2,581)	(951)	-	13,494
	₩ 527,028	6,249	(148,619)	(18,676)	(2,696)	363,286

(\*) Application of equity method was discontinued as book value reduced to nil due to accumulated loss. The unrecognized changes in equity amounted to ₩358 million.



HYUNDAI HEAVY INDUSTRIES CO., LTD. AND SUBSIDIARIES  
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12. Investments in Associates, Continued

- (5) Reconciliation from net assets of the associates to the carrying amount of investments in associates in the Group's consolidated financial statements as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

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

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

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12. Investments in Associates, Continued

- (5) Reconciliation from net assets of the associates to the carrying amount of investments in associates in the Group's consolidated financial statements as of December 31, 2014 and 2013 are summarized as follows, continued:

(In millions of won)

Associates	2013						
	Ending net assets	Percentage of the Group's ownership	Net value	Corporate adjustments (e.g. : goodwill etc)	Elimination of inter-segment transactions and unrealized profits and losses	Others	Ending carrying amount
New Korea Country Club	₩ 27,507	40.00%	11,002	22,670	-	-	33,672
Hyundai Merchant Marine Co., Ltd. (*1,2)	687,642	20.24%	65,901	19,110	(15,196)	-	69,815
Taebaek Wind Power Co., Ltd.	22,205	35.00%	7,772	-	(424)	-	7,348
Muju Wind Power Co., Ltd.	10,830	45.00%	4,873	-	-	-	4,873
Pyeongchang Wind Power Co., Ltd.	2,399	35.00%	840	-	-	-	840
Jinan Jangsu Wind Power Co., Ltd.	309	32.00%	99	-	-	-	99
Changjuk Wind Power Co., Ltd.	21,186	43.00%	9,110	-	330	-	9,440
Hyundai Corporation (*2)	594,383	22.36%	109,458	72,262	(331)	-	181,389
Daesung Win-Win Fund	44,505	23.81%	10,597	-	-	-	10,597
KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	13,903	40.00%	5,561	-	-	-	5,561
KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	14,878	37.50%	5,579	-	-	-	5,579
The Second Partners Win-Win Investment Fund	1,051	23.33%	245	-	-	-	245
KoFC-Partners Pioneer Champ 2011-1 Investment Fund	24,406	21.21%	5,177	-	-	-	5,177
Qinhuangdao Shouqin Metal Materials Co., Ltd.	47,165	20.00%	9,433	-	-	-	9,433
PT. Hyundai Machinery Indonesia	(1,720)	20.83%	(358)	-	-	358	-
HYUNDAI Primorye Ltd.	8,172	49.99%	4,085	722	-	-	4,807
Hyundai Green Industries Co., W.L.L.	1,871	49.00%	917	-	-	-	917
Tribridge Capital Management	737	23.93%	176	-	-	(176)	-
MAHY E-CELL	26,791	40.00%	10,716	2,778	-	-	13,494
	₩ <u>1,548,220</u>		<u>261,183</u>	<u>117,542</u>	<u>(15,621)</u>	<u>182</u>	<u>363,286</u>

(\*1) The percentage of ownership for the Group is 20.03% (in the case of consideration of treasury stock, 20.24%) as of December 31, 2013.

(\*2) The net asset value of associates represents the amount attributable to the controlling interests in the associates as of December 31, 2013.

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**13. Investments in Joint Ventures**

(1) Investments in joint ventures as of December 31, 2014 and 2013 are summarized as follows:

*(In millions of won, except percentage of ownership)*

Joint ventures	Location	Fiscal year end	Particulars	2014		2013	
				Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Wärtsilä-Hyundai Engine Company Ltd.	Korea	December	Manufacture, assemble and test of marine engines and parts	50.00%	₩ 98,556	50.00%	₩ 90,388
Hyundai Cummins Engine Company	Korea	December	Manufacture of engines	50.00%	20,802	50.00%	28,092
Hyundai-Avancis Co., Ltd.	Korea	December	Sale and manufacture of solar module	50.00%	32,333	50.00%	33,149
Hyundai Cosmo Petrochemical Co., Ltd.	Korea	December	Manufacturing of petrochemicals	50.00%	92,714	50.00%	146,690
Grand China Hyundai Shipping Co., Ltd.	Hong Kong	December	Acquiring, renting, leasing and chartering of bulk carrier	50.00%	59	50.00%	59
BMC Hyundai S.A.	Brazil	December	Sale of machinery equipment for construction	30.00%	-	-	-
Hyundai Agro-Bio fund I	Korea	December	Other financial business	50.00%	1,495	-	-
					₩ 245,959		₩ 298,378

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**13. Investments in Joint Ventures, Continued**

(2) Condensed financial information of joint ventures as of and for the years ended December 31, 2014 and 2013 is summarized as follows:

1) Summary finance information

(In millions of won)

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

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

- (2) Condensed financial information of joint ventures as of and for the years ended December 31, 2014 and 2013 is summarized as follows, continued  
1) Summary finance information, continued

(In millions of won)

Joint ventures	2013										
	Condensed financial information of joint ventures										Dividends received from investments in joint ventures
	Current assets	Non-Current assets	Current liabilities	Non-Current liabilities	Equity	Sales	Operating income (loss)	Profit (loss)	Other comprehensive income (loss)	Total comprehensive income (loss)	
Wärtsilä-Hyundai Engine Company Ltd.	₩ 428,164	52,658	241,338	58,502	180,982	395,900	82,925	77,569	(35)	77,534	6,611
Hyundai Cummins Engine Company	7,993	80,202	11,535	20,476	56,184	-	(10,340)	(10,181)	-	(10,181)	-
Hyundai-Avancis Co., Ltd.	23,032	47,138	704	1,182	68,284	-	(8,355)	(142,576)	298	(142,278)	-
Hyundai Cosmo Petrochemical Co., Ltd.	635,113	948,297	476,418	559,135	547,857	3,329,608	28,936	840	3,045	3,885	-
Grand China Hyundai Shipping Co., Ltd.	119	-	-	-	119	-	(22)	(22)	(19)	(41)	-
	₩ 1,094,421	1,128,295	729,995	639,295	853,426	3,725,508	93,144	(74,370)	3,289	(71,081)	6,611

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

- (2) Condensed financial information of joint ventures as of and for the years ended December 31, 2014 and 2013 is summarized as follows, continued  
2) Additional financial information

(In millions of won)

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

(In millions of won)

Joint ventures	2013						
	Cash and cash equivalents	Current financial liabilities	Non-current financial liabilities	Depreciation	Interest revenues	Interest expenses	Tax expense
Wärtsilä-Hyundai Engine Company Ltd.	₩ 29,529	-	-	5,265	2,125	-	11,576
Hyundai Cummins Engine Company	5,812	-	20,438	519	275	254	-
Hyundai-Avancis Co., Ltd.	3,494	445	1,182	1,222	632	130	1,249
Hyundai Cosmo Petrochemical Co., Ltd.	96,947	114,156	538,534	65,241	1,965	29,153	-
Grand China Hyundai Shipping Co., Ltd.	119	-	-	-	-	-	-
	₩ 135,901	114,601	560,154	72,247	4,997	29,537	12,825

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

(3) Changes in equity-method accounted joint ventures for the years ended December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

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

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

(In millions of won)

Joint ventures	2013					
	Beginning balance	Acquisition (disposal)	Share of profit (loss) of equity accounted investees	Changes in equity of equity accounted investees	Dividends received	Ending balance
Wärtsilä-Hyundai Engine Company Ltd.	₩ 58,087	-	38,929	(17)	(6,611)	90,388
Hyundai Cummins Engine Company	12,522	20,760	(5,090)	(100)	-	28,092
KAM Corporation(*)	1,989	-	(1,989)	-	-	-
Hyundai-Avancis Co., Ltd.	104,288	-	(71,288)	149	-	33,149
Hyundai Cosmo Petrochemical Co., Ltd.	146,294	-	(1,126)	1,522	-	146,690
Grand China Hyundai Shipping Co., Ltd.	833	(753)	(12)	(9)	-	59
	₩ 324,013	20,007	(40,576)	1,545	(6,611)	298,378

(\*) The shares owned are retired with no proceeds for the purpose of capital reduction for loss recovery for the year ended December 31, 2013.

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**13. Investments in Joint Ventures, Continued**

(4) Reconciliation from net assets of the joint ventures to the carrying amount of investments in joint ventures in the Group's consolidated financial statements as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

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

(In millions of won)

Joint ventures	2013				
	Ending net assets	Group's ownership	Net value	Elimination of inter-segment transactions and unrealized profits and losses	Ending carrying amount
Wärtsilä-Hyundai Engine Company Ltd.	₩ 180,982	50%	90,491	(103)	90,388
Hyundai Cummins Engine Company	56,184	50%	28,092	-	28,092
Hyundai-Avancis Co., Ltd.	68,284	50%	34,142	(993)	33,149
Hyundai Cosmo Petrochemical Co., Ltd.	547,857	50%	273,929	(127,239)	146,690
Grand China Hyundai Shipping Co., Ltd.	119	50%	59	-	59
	₩ <u>853,426</u>		<u>426,713</u>	<u>(128,335)</u>	<u>298,378</u>

**14. Joint Operation**

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

Joint operation	Main Office	Main business	2014
			Ownership (%)
FDH JV	Kuwait	Chemical plant	33.33

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



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

Available-for-sale financial assets as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014			2013		
	Ownership (%)	Acquisition Cost	Carrying amount	Ownership (%)	Acquisition Cost	Carrying amount
<b>Listed equity securities:</b>						
Hyundai Motors Corporation	3.03% ₩	487,007 ₩	1,126,385	3.03% ₩	487,007 ₩	1,576,273
POSCO (*2)	1.50%	731,602	360,354	2.50%	1,075,221	711,770
Hyundai Merchant Marine Co., Ltd. (*3)	18.60%	314,283	339,032	-	-	-
KCC Corporation	3.77%	78,927	206,440	11.41%	268,497	562,200
Korea Environment Technology Co., Ltd.	10.88%	2,733	14,851	10.88%	2,733	12,485
KEPCO Engineering & Construction Company, Inc	-	-	-	4.69%	38,712	108,429
Others		14,943	18,855		81,084	25,559
		<u>1,629,495</u>	<u>2,065,917</u>		<u>1,953,254</u>	<u>2,996,716</u>
<b>Unlisted equity securities (*1):</b>						
Daehan Oil Pipeline Corporation (*4)	6.39%	14,512	33,117	6.39%	14,512	33,275
Sejin Heavy Industries Co., Ltd	14.53%	22,500	22,500	14.53%	22,500	22,500
Korea Exchange	0.40%	3,000	11,470	0.40%	3,000	11,622
Doosan Capital Co., Ltd. (*4)	7.14%	10,000	6,214	7.14%	10,000	10,348
OSX Construcao Naval S.A. (*5)	10.00%	57,498	-	10.00%	57,498	10,977
Hynix Semiconductor America Inc.	1.33%	34,525	-	1.33%	34,525	-
Others		78,629	64,301		82,861	71,600
		<u>220,664</u>	<u>137,602</u>		<u>224,896</u>	<u>160,322</u>
<b>Beneficiary certificates:</b>						
HI Global Top Picks China Securities Feeder Investment Trust		47,641	44,116		54,336	46,469
<b>Debt securities</b>						
Monetary stabilization bond and others		196,087	195,843		210,943	212,461
<b>Investments in capital and others</b>						
Joint compensation fund for loss incurred from contravention of contracts (*6)		38,319	37,596		22,530	24,060
	₩	<u>2,132,206</u>	<u>2,481,074</u>	₩	<u>2,465,959</u>	<u>3,440,028</u>

(\*1) Unless otherwise noted, the carrying amounts of unlisted equity securities were recorded at their acquisition cost because the fair values cannot be estimated reliably.

(\*2) For the year ended December 31, 2014, an impairment loss of ₩30,084 million was recognized due to further decline in the fair value of the investee below its cost.

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

- (\*3) For the year ended December 31, 2014, the Group's percentage of ownership of Hyundai Merchant Marine Co., Ltd., which used to be an associate, decreased to below 20% due to disproportionate issuance of capital by the investee. As a result, the Group no longer has significant influence in Hyundai Merchant Marine Co., Ltd. and its investments have been reclassified to available-for-sale financial asset.
- (\*4) The fair value of Doosan Capital Co., Ltd. was calculated by using the market comparison technique. And 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.
- (\*5) As of December 31, 2014, due to continuous loss making of the investee, the Group recognized full impairment loss because the investment's fair value is considered to be zero.
- (\*6) As of December 31, 2014 and 2013, this includes a damage compensation joint fund, for which the use is restricted, in the amounts of ₩8,736 million and ₩6,358 million, respectively. The damage compensation joint fund is the amount the Group deposited with in Korea Exchange in order to compensate for the damages that occurs from the breach of selling agreements, pursuant to the Financial Investment Services and Capital Markets Act, Section 394 and others.

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**16. Investment Property**

(1) Changes in investment property for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

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

(In millions of won)

		2013		
		Land	Buildings	Total
Beginning balance	₩	243,224	79,457	322,681
Acquisition and other		18,060	100,489	118,549
Disposals		(470)	(380)	(850)
Depreciation		-	(6,797)	(6,797)
Effects of movements in exchange rates		-	34	34
Ending balance	₩	<u>260,814</u>	<u>172,803</u>	<u>433,617</u>
Acquisition cost		260,814	207,170	467,984
Accumulated depreciation		-	(34,367)	(34,367)

(2) Revenue (expense) from investment property for the years ended December 31, 2014 and 2013 is as follows:

(In millions of won)

		2014	2013
Rental income	₩	11,472	13,893
Operating and maintenance expense arising from investment property that generated rental income		7,308	6,339
Operating and maintenance expense arising from investment property that did not generate rental income		52	40

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

(In millions of won)

		Book value	Fair value
Land	₩	213,116	302,765
Buildings		<u>197,675</u>	<u>276,897</u>
	₩	<u>410,791</u>	<u>579,662</u>

The fair value of investment property was determined by external, independent appraisers, having appropriate recognized professional qualifications and experience in relation to the assessment of real estate in the Republic of Korea as of January 1, 2010 when the K-IFRS was adopted. The valuation is measured by using comparison methods to obtain the economic value based on marketability of the property. The Group calculated fair value considering the standard market price after transition date to K-IFRS, in order to estimate the fair value of investment property as of December 31, 2014.

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**17. Property, Plant and Equipment**

(1) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

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

(In millions of won)

	2013						
	Machinery and Construction						Total
	Land	Buildings	Structures	equipment	in-progress	Others	
Beginning balance	₩ 4,439,939	3,270,414	2,570,450	4,157,208	437,667	680,786	15,556,464
Acquisitions and other	65,197	137,984	246,962	264,065	93,295	361,697	1,169,200
Disposals	(59,040)	(15,995)	(7,405)	(3,335)	(6,087)	(4,231)	(96,093)
Depreciation	-	(109,611)	(94,252)	(435,031)	-	(246,162)	(885,056)
Impairment	-	-	-	-	-	(75)	(75)
Effect of movements in exchange rates	(1,150)	(15,958)	(2,919)	(7,793)	(2,014)	(1,609)	(31,443)
Ending balance	₩ 4,444,946	3,266,834	2,712,836	3,975,114	522,861	790,406	15,712,997
Acquisition cost	4,446,423	4,287,929	3,659,949	7,747,031	522,861	2,886,969	23,551,162
Government grants	(1,477)	(9,255)	(2,062)	(499)	-	(844)	(14,137)
Accumulated depreciation	-	(1,011,840)	(945,051)	(3,688,383)	-	(2,094,432)	(7,739,706)
Accumulated impairment	-	-	-	(83,035)	-	(1,287)	(84,322)

(2) During 2014, due to the low profitability of power generation equipment, the Group 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 ₩15,542 million was recognized, and the estimate of value in use was determined using a pre-tax discount rate of 7.00% for the year ended December 31, 2014.

(3) Construction-in-progress is related to the construction of HLV (Heavy Lifting Vessel) barge, development and construction of Ihwa Industrial Park and construction of petrochemical production facility as of December 31, 2014.

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**18. Intangible Assets**

(1) Changes in goodwill for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Beginning balance	₩ 1,399,915	1,417,369
Impairment loss	(39,640)	(17,454)
Effects of changes in scope of consolidation	(126)	-
Ending balance	<u>₩ 1,360,149</u>	<u>1,399,915</u>
Acquisition cost	1,515,282	1,515,408
Accumulated impairment loss	(155,133)	(115,493)

Details of goodwill as of December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Hyundai Oilbank Co., Ltd	₩ 1,087,419	1,087,419
HI Investment & Securities Co., Ltd. And subsidiaries	251,899	291,539
Hyundai Samho Heavy Industry Co., Ltd	13,141	13,141
Hyundai (Shandong) Heavy Industries Co., Ltd.	7,690	7,690
Others	-	126
	<u>₩ 1,360,149</u>	<u>1,399,915</u>

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

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

As of December 31, 2014, assumptions used in estimating value in use of for CGUs to which significant goodwill has been assigned are as follows:

	<u>Hyundai Oilbank Co., Ltd.</u>	<u>HI Investment &amp; Securities Co., Ltd.</u>	<u>HI Asset Management Co., Ltd.</u>
Pre-tax discount rate (%)	8.66	10.37	9.89
Permanent growth rate (%)	2.50	2.00	2.00

For the year ended December 31, 2014, Hyundai Mipo Dockyard Co., Ltd. recognized an impairment loss amounting to ₩39,640 million on the goodwill which was recognized in the acquisition of investments in the HI Investment Securities Co. Ltd.

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**18. Intangible Assets, Continued**

(2) Changes in intangible assets other than goodwill for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

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

(In millions of won)

	2013						
	Development costs	Networks	Customer relationships	Brands	Know-how	Other intangible assets	Total
	Beginning balance	₩ 323,601	90,131	81,229	192,220	40,920	151,940
Acquisitions and other	89,665	-	-	-	-	12,450	102,115
Disposals	-	-	-	-	-	(4,562)	(4,562)
Amortization	(62,603)	(5,126)	(12,339)	-	(3,013)	(6,215)	(89,296)
Impairment loss	-	-	-	-	-	(2,407)	(2,407)
Effect of movements in exchange rates	(40)	-	-	-	-	(117)	(157)
Ending balance(*)	₩ 350,623	85,005	68,890	192,220	37,907	151,089	885,734
Acquisition cost	849,533	102,519	111,048	192,220	48,201	228,846	1,532,367
Accumulated amortization	(497,851)	(17,514)	(42,158)	-	(10,294)	(74,440)	(642,257)
Accumulated impairment	(1,059)	-	-	-	-	(3,317)	(4,376)

(\*) The carrying amount of intangible assets with indefinite useful lives is ₩280,414 million and ₩282,633 million as of December 31, 2014 and 2013, respectively.

- (3) For the year ended December 31, 2014, the Group recognized impairment loss in development costs amounting to ₩19,678 million for the suspended development projects. Also the Group recognized impairment losses of memberships and usable and profitable donation assets amounting to ₩2,422 million and 99 million, respectively, for the year ended December 31, 2014.
- (4) Research costs amounting to ₩35,271 million and ₩25,954 million, and ordinary development costs amounting to ₩183,448 million and ₩155,413 million are included in selling, general and administrative expenses for the years ended December 31, 2014 and 2013, respectively. Amortization of capitalized development costs of ₩68,010 million and ₩62,603 million are included in the manufacturing cost and selling, general and administrative expenses for the years ended December 31, 2014 and 2013, respectively.

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**19. Pledged Assets**

(1) Assets pledged as collateral for the Group's borrowings as of December 31, 2014 are summarized as follows:

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

Asset	Carrying amount	Collateralized amount	Type of borrowings	Borrowings amount	Lender
Land and buildings	KRW 83,472	KRW 76,919	Long-term borrowings	KRW 37,869	Kookmin Bank
Land	KRW 112,753		Long-term borrowings		The Korea Development Bank and Others
Buildings	KRW 95,359				
Machinery and structures	KRW 1,949,324	KRW 1,440,000		KRW 1,200,000	
Land	KRW 8,563		Long-term borrowings		Korea Exchange Bank and Others
Buildings	KRW 3,566				
Machinery and structures	KRW 296,002	KRW 234,000		KRW 195,000	
Land	KRW 13,743		Long-term borrowings		Shinhan Bank
Buildings	KRW 2,493				
Structure	KRW 20,211	KRW 36,000		KRW 30,000	
The Korea Exchange stock	KRW 3,000	KRW 10,000	Secured loans	-	The Korea Securities Finance Corporation
Inventories and trade receivables	EUR 5,500	EUR 5,500	General purpose loans	EUR 4,500	BNP Paribas Fortis Bank, Belgium
Stocks of MS Dandy Ltd.	USD -	USD 5,645	Secured loans	USD 10,960	National Federation of Fisheries Cooperatives
	KRW 2,588,486	KRW 1,796,919		KRW 1,462,869	
	USD -	USD 5,645		USD 10,960	
	EUR 5,500	EUR 5,500		EUR 4,500	

(2) The Group received payment guarantees from financial institutions covering advance payments on ships as of December 31, 2014. Regarding this, the Group collateralized its ships under construction and construction materials (see note 44).

(3) As of December 31, 2014, the Group collateralized ₩3,395,544 million of held-for-trading investments, ₩190,096 million of borrowed securities and ₩120,416 million of available-for-sale financial assets for borrowing transactions, warranty for derivative instruments and a settlement fund for stock clearing to Korea Exchange and others.

**20. Short-term and Long-term Financial Liabilities**

Short-term and long-term financial liabilities as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014		2013	
	Current	Non-current	Current	Non-current
Borrowings	₩ 8,907,856	3,932,725	10,328,520	2,624,903
Held for trading liabilities	1,611,249	43,581	1,147,270	9,950
Financial liability at fair value through profit or loss	64,739	1,010,769	106,363	377,654
Debentures	1,250,000	2,459,760	300,000	2,596,590
Discount on debentures	(415)	(6,799)	(297)	(6,559)
Deposit liabilities	285,028	-	304,417	-
Others	11,251	-	13,648	-
	₩ 12,129,708	7,440,036	12,199,921	5,602,538

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**21. Trade and Other Payables**

Trade and other payables as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014		2013	
	Current	Non-current	Current	Non-current
Trade payables	₩ 3,753,892	-	4,345,971	-
Other accounts payable	1,302,121	389	1,261,482	1,561
Accrued dividends	933	-	-	-
Accrued expense	1,305,222	-	746,880	9,095
Deposits received	-	104,008	-	123,494
	₩ <u>6,362,168</u>	<u>104,397</u>	<u>6,354,333</u>	<u>134,150</u>

**22. Other Liabilities**

Other liabilities as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

	2014		2013	
	Current	Non-current	Current	Non-current
Unearned revenues	₩ 34,405	-	16,885	-
Deferred revenues	-	28,532	-	38,595
Others	3,568	5,095	5,628	5,526
	₩ <u>37,973</u>	<u>33,627</u>	<u>22,513</u>	<u>44,121</u>



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**23. Borrowings and Debentures**

(1) Short-term borrowings as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

<b>Type of borrowing</b>	<b>Lender</b>	<b>Annual interest rate (%)</b>		<b>2014</b>	<b>2013</b>
General loan	Hanyang Securities	2.83~4.95	₩	320,038	50,000
General Loan in foreign currency	Agricultural Bank of China and others	-		-	100,969
Call money	Kookmin Bank and others	2.03~2.15		80,000	163,400
Commercial paper	SK Securities Co., Ltd and others	2.15~5.00		1,401,400	1,146,070
Repurchase agreements sales	Korea Securities Finance Corporation and others	2.18		1,338,807	2,087,705
Invoice Loan	Mizuho Corporate Bank and others	0.69~1.34		584,843	912,159
Import loan	Bank of china and others	1.19~1.82		133,137	575
Usance L/C	Woori Bank and others	0.36~1.53		2,319,210	1,519,214
Other borrowings from Korea Exim Bank	Export-Import Bank of Korea	2.56~2.73		300,580	-
Pre-shipment credit	Export-Import Bank of Korea and others	2.83~2.92		600,000	1,470,000
Other borrowings from KSFC	Korea Securities Finance Corporation	2.15		50,000	5,000
Borrowings from margin loans	Korea Securities Finance Corporation	2.30		13,494	59,779
Asset backed short-term bond	HMC Investment securities Co., Ltd	2.18~4.55		185,700	55,000
Loan in foreign currency	Mizuho Corporate Bank and others	LIB(1M)+0.85~11.25		550,123	791,443
				7,877,332	8,361,314
Current portion of long-term borrowings				1,030,524	1,967,206
			₩	<u>8,907,856</u>	<u>10,328,520</u>

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**23. Borrowings and Debentures, Continued**

(2) Long-term borrowings as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

<b>Type of borrowing</b>	<b>Lender</b>	<b>Annual interest rate (%)</b>		<b>2014</b>	<b>2013</b>
General loan	Hana Bank and others	3.00~3.85	₩	650,000	200,000
Commercial paper	SK Securities Co., Ltd and others	3.01~3.26		880,000	2,140,000
General loan in foreign currency	Hana Bank	1.99~2.18		876,502	211,060
National Housing Fund	Kookmin Bank	2.70		37,869	39,583
Energy rationalization	The Korea Development Bank	1.75		3,725	4,572
Environment improvement fund	The Korea Development Bank	2.77		1,398	2,070
General fund for equipment	The Korea Development Bank and others	3.46~4.09		823,633	1,149,104
Business loans (*)	Korea National Oil Corporation and others	0.75~3.75		11,602	11,140
Pre-shipment credit	Export-Import Bank of Korea	2.97~3.60		1,263,000	430,000
Loan in foreign currency	Standard Chartered Bank and others	LIB(1M)+0.95~6.15		415,520	404,580
				4,963,249	4,592,109
Current portion				(1,030,524)	(1,967,206)
			₩	<u>3,932,725</u>	<u>2,624,903</u>

(\*) During 2013, the consortium that included the Group decided to withdraw from its oil development business in the 4 mining areas in Yemen and Kazakhstan mining development business through sale of shares. The maturities of business loans (₩11,602 million and ₩11,140 million as of December 31, 2014 and 2013, respectively) from Korea National Oil Corporation are not readily determinable since the decision on redemptions of business loans are still being deliberated by the supervisory institution.

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**23. Borrowings and Debentures, Continued**

(3) Debentures as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

Description	Maturity	Annual interest rate (%)	2014	2013
113 <sup>th</sup> debenture	2015-02-17	3.96	₩ 500,000	500,000
114 <sup>th</sup> -1 debenture	2015-07-24	3.23	300,000	300,000
114 <sup>th</sup> -2 debenture	2017-07-24	3.35	400,000	400,000
116 <sup>th</sup> -1 debenture	2017-02-26	3.14	200,000	-
116 <sup>th</sup> -2 debenture	2019-02-26	3.45	300,000	-
Foreign currency bond	2016-06-10	1.14	329,760	316,590
98 <sup>th</sup> debenture	2014-02-02	-	-	100,000
103 <sup>rd</sup> debenture	2014-07-03	-	-	100,000
105 <sup>th</sup> debenture	2015-06-28	5.75	200,000	200,000
106 <sup>th</sup> debenture	2014-04-14	-	-	100,000
108 <sup>th</sup> debenture	2015-01-25	3.98	150,000	150,000
109 <sup>th</sup> debenture	2015-03-27	4.08	100,000	100,000
110 <sup>th</sup> debenture	2017-07-20	3.52	300,000	300,000
111 <sup>th</sup> -1 debenture	2016-10-23	3.24	100,000	100,000
111 <sup>th</sup> -2 debenture	2019-10-23	3.52	100,000	100,000
112 <sup>th</sup> -1 debenture	2018-01-27	3.35	150,000	-
112 <sup>th</sup> -2 debenture	2019-01-27	3.59	50,000	-
113 <sup>th</sup> debenture	2018-06-25	3.01	100,000	-
114 <sup>th</sup> -1 debenture	2017-11-21	2.36	80,000	-
114 <sup>th</sup> -2 debenture	2019-11-21	2.59	160,000	-
114 <sup>th</sup> -2 debenture	2021-11-21	2.94	60,000	-
1 <sup>st</sup> -1 subordinated bonds	2018-03-11	4.88	60,000	60,000
1 <sup>st</sup> -2 subordinated bonds	2019-09-11	5.18	40,000	40,000
2 <sup>nd</sup> subordinated bonds	2019-10-31	5.30	30,000	30,000
			3,709,760	2,896,590
Discount on debentures			(7,214)	(6,856)
Current portion and discounts on bond			(1,250,000)	(300,000)
Discount on current portion			415	297
			₩ 2,452,961	2,590,031

(4) Aggregate maturities of the Group's borrowings and debentures as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

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

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**23. Borrowings and Debentures, Continued**

(4) Aggregate maturities of the Group's borrowings and debentures as of December 31, 2014 and 2013 are summarized as follows, continued:

<i>(In millions of won)</i>	Periods	2013		Total
		Borrowings	Debentures	
	2014.01.01~2014.12.31	₩ 10,328,520	300,000	10,628,520
	2015.01.01~2018.12.31	2,211,676	2,426,590	4,638,266
	2019.01.01 and thereafter	413,227	170,000	583,227
		₩ <u>12,953,423</u>	<u>2,896,590</u>	<u>15,850,013</u>

(5) Issues and repayments for the year ended December 31, 2014 are as follows:

<i>(In millions of won)</i>	2014		
	Borrowings	Debentures	Total
Beginning balance	₩ 12,953,423	2,889,734	15,843,157
Borrowing	27,459,500	1,095,812	28,555,312
Repayment	(27,683,133)	(300,000)	(27,983,133)
Effect of movements in exchange rates	110,791	13,170	123,961
Amortization of discounts on debentures	-	3,830	3,830
Ending balance	₩ <u>12,840,581</u>	<u>3,702,546</u>	<u>16,543,127</u>

**24. Employee Benefits**

(1) Recognized liabilities for defined benefit obligations as of December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	2014	2013
Present value of defined benefit obligations	₩ 1,915,147	1,483,146
Fair value of plan assets(*)	(1,363,914)	(1,319,193)
	₩ <u>551,233</u>	<u>163,953</u>

(\*)The fair value of plan assets in excess of the present value of the related defined benefit obligation is presented in other non-current assets, and the fair values of such plan assets amount to ₩1,365,565 million and ₩1,337,212 million as of December 31, 2014 and 2013, respectively. Surplus of some subsidiaries in the amount of ₩1,651 million and ₩18,019 million as of December 31, 2014 and 2013 including HI Investment Securities, Co., Ltd. and others, are recognized as plan assets (in other non-current assets), and the savings paid in excess have been accounted for plan assets of other non-current assets, and the fair value of this amount is ₩1,365,565 million and ₩1,337,212 million as of December 31, 2014 and 2013.

(2) Plan assets as of December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	2014	2013
Retirement pension	₩ 1,352,929	1,323,267
Transfer to National Pension Fund	12,636	13,945
	₩ <u>1,365,565</u>	<u>1,337,212</u>

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**24. Employee Benefits, Continued**

(3) Expenses recognized in profit or loss for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Current service costs	₩ 247,935	208,552
Past service costs	126,937	-
Interest on obligations	56,037	48,406
Expected return on plan assets	(50,591)	(39,964)
Contribution	847	387
	<u>₩ 381,165</u>	<u>217,381</u>

(4) Changes in the defined benefit obligations for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Beginning balance	₩ 1,483,146	1,395,997
Current service costs	247,935	208,552
Past service costs	126,937	-
Interest on obligations	56,037	48,406
Benefits paid	(185,810)	(83,494)
Transfers from related parties	1,168	5,623
Effect of movements in exchange rates	(705)	186
Actuarial loss (gain) in other comprehensive income:		
Demographic assumption	9,801	(1,105)
Financial assumption	136,877	(105,517)
Experience adjustment	39,761	14,498
Ending balance	<u>₩ 1,915,147</u>	<u>1,483,146</u>

(5) Changes in the fair value of plan assets for the years ended December 31, 2014 and the year ended December 31, 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Beginning balance	₩ 1,337,212	1,145,817
Benefits paid	(157,063)	(49,515)
Contributions paid into the plan	150,563	202,163
Expected return on plan assets	50,591	39,964
Actuarial gains in other comprehensive income	(15,738)	(1,217)
Ending balance	<u>₩ 1,365,565</u>	<u>1,337,212</u>

The Group are reviewing the level of the fund each year, and taking the policy to preserve fund in the event of a loss to the fund. The Group expects to pay ₩214,890 million in contributions to its defined benefit plans in next year.

(6) Expected payment date of the defined benefit obligations as of December 31, 2014 is as follows:

<i>(In millions of won)</i>	<u>Within 1 year</u>	<u>1 ~ 5years</u>	<u>5 ~ 10years</u>	<u>More than 10 years</u>	<u>Total</u>
Expected payment	₩ 53,747	726,312	963,506	4,998,347	6,741,912

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**24. Employee Benefits, Continued**

(7) Principal actuarial assumptions as of December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Discount rate	3.08%~3.41%	3.93%~4.38%
Future salary growth	2.53%~4.42%	2.56%~3.92%
Future mortality (Males, at age 45)	0.25%~0.26%	0.27%

(8) Reasonably possible changes as of December 31, 2014 and 2013 to the each relevant actuarial assumption would have affected the defined benefit obligation by the amounts shown below.

*(In millions of won)*

	<u>2014</u>		<u>2013</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	₩ (155,502)	183,212	(96,966)	112,268
Future salary growth (1% movement)	154,044	(133,931)	100,749	(88,697)

(9) Historical information for the amounts related to defined benefit plans recognized for the current year and previous years are as follows:

*(In millions of won)*

	<u>December 31, 2014</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Defined benefit obligations	₩ 1,915,147	1,483,146	1,395,997	1,171,191	1,033,030
Plan assets	(1,365,565)	(1,337,212)	(1,145,817)	(1,015,798)	(901,709)
Deficit	549,582	145,934	250,180	155,393	131,321
Experience adjustments on plan liabilities	186,439	(92,124)	66,308	154,575	132,186
Experience adjustments on plan assets	15,738	1,217	5,147	(5,949)	4,823

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**25. Long-term Provisions**

Changes in long-term provisions for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014				2013			
	Provision for construction warranty	Provision for product warranty	Other provision	Total	Provision for construction warranty	Provision for product warranty	Other provision	Total
Beginning balance	₩ 357,976	130,805	64,136	552,917	233,870	124,252	36,925	395,047
Additions	63,891	168,206	16,043	248,140	160,118	130,215	53,102	343,435
Reversals	(42,718)	(38,308)	(12,940)	(93,966)	(12,420)	(38,845)	(15,968)	(67,233)
Utilization	(82,267)	(85,197)	(37,466)	(204,930)	(23,531)	(84,940)	(8,661)	(117,132)
Effect of movements								
in exchange rates	68	124	19	211	(61)	123	(1,262)	(1,200)
Ending balance	₩ 296,950	175,630	29,792	502,372	357,976	130,805	64,136	552,917

**26. Derivative Financial Instruments**

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

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

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

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**26. Derivative Financial Instruments, Continued**

(2) As of December 31, 2014, details of the derivatives entered into by the Group are as follows:

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

Description	Type	Currency		Contract amount	Number of contracts	Weighted average exchange rate	Average maturities		
		Sell	Buy						
Fair value hedge	Foreign currency forward	EUR	KRW	₩ 3,289	3	1,481.86	2015-08-29		
		USD	KRW	16,841,327	3,253	1,097.38	2016-04-02		
		USD	CNY	30,129	18	6.15	2015-05-22		
Cash flow hedge	Foreign currency forward	EUR	KRW	23,998	9	1,377.50	2015-04-27		
		KRW	EUR	11,151	12	1,450.50	2016-02-09		
		KRW	USD	668,212	91	1,104.54	2015-08-17		
		KRW	JPY	1,647	2	9.58	2015-10-30		
		USD	CHF	15,897	15	1.12	2015-09-09		
		USD	EUR	222,251	115	0.75	2015-07-20		
		USD	GBP	622	5	0.61	2015-08-17		
		USD	JPY	115,337	11	93.41	2015-07-15		
		USD	KRW	1,019,034	105	1,076.74	2015-07-27		
		USD	NOK	10,236	3	6.02	2015-02-14		
		KRW	KRW	60,000	1	-	2020-11-20		
		For trading	Foreign currency forward	USD	KRW	14,199	2	1,098.02	2015-08-09
				USD	USD	520,243	26	1,101.51	2015-01-16
			Foreign currency futures	USD	KRW	243	221	1,100.60	2015-01-20
				KRW	KRW	250,000	13	-	2016-08-31
Interest rate swap	USD		USD	27,500	2	-	2016-01-03		
	KRW		KRW	1,442,940	12,851	-	2015-03-17		
Index futures	KRW		KRW	69,906	573	-	2015-01-08		
	USD		USD	641	55	-	2015-01-29		
Stock warrants	HKD		HKD	136,675	228	-	2015-01-29		
	KRW		KRW	1,050	1	-	2016-09-23		
Commodity futures	USD		USD	1,197	1	-	2015-03-31		
	USD		KRW	1,315	15	-	2015-03-17		
Others			KRW	KRW	1,526,197	2,695	-	2016-07-16	

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

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



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**26. Derivative Financial Instruments, Continued**

(3) Book value related to derivatives as of December 31, 2014 is as follows:

(In millions of won)

Description	Category	Financial assets or liabilities at fair value through											
		Derivatives				profit or loss				Firm commitment			
		Assets		Liabilities		Assets		Liabilities		Assets		Liabilities	
		Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Fair value hedge	Foreign currency forward	₩ 120,636	15,852	122,073	154,232	-	-	-	-	102,391	153,875	78,982	13,059
Cash flow hedge	Foreign currency forward	6,793	3,524	82,717	4,096	-	-	-	-	-	-	-	-
	Interest rate swap	-	-	-	4,239	-	-	-	-	-	-	-	-
For trading	Foreign currency forward	-	-	-	-	243	-	1,245	-	-	-	-	-
	Interest rate swap	-	-	-	-	3,353	159	510	1,271	-	-	-	-
	Index futures	-	-	-	-	130	-	29	-	-	-	-	-
	Stock warrants	-	-	-	-	83	179	-	-	-	-	-	-
	Commodity futures	-	-	-	-	-	-	83	-	-	-	-	-
	Product forward	-	-	-	-	42	-	15	-	-	-	-	-
	Others	-	-	-	-	394	31,605	100,696	42,310	-	-	-	-
		₩ 127,429	19,376	204,790	162,567	4,245	31,943	102,578	43,581	102,391	153,875	78,982	13,059

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**26. Derivative Financial Instruments, Continued**

(4) Gain and loss on valuation and transaction of derivatives for the year ended December 31, 2014 are as follows:

(In millions of won)

Description	Category	Increase to sales	Increase to cost of sales	Increase to finance income	Increase to finance costs	Increase to other non-operating income	Increase to other non-operating expenses	Accumulated other comprehensive income (loss)
Fair value hedge	Foreign currency forward	₩ 343,959	-	278,739	565,935	488,818	179,448	-
Cash flow hedge	Foreign currency forward	43,870	82,771	1,700	128	-	-	(36,209)
	Interest rate swap	-	-	-	552	-	-	438
For trading	Foreign currency forward	694	294	71,888	64,763	-	-	-
	Foreign currency futures	1,903	1,812	-	-	-	-	-
	Interest rate swap	256	1,970	9,972	7,855	-	-	-
	Interest rate futures	46,578	14,411	-	-	-	-	-
	Index futures	27,820	19,894	-	-	-	-	-
	Index option	8,428	7,011	-	-	-	-	-
	Stock warrants	550	404	-	-	-	-	-
	Commodity futures	-	-	12,535	3,848	-	-	-
	Product forward	76	63	-	-	-	-	-
	Others	35,354	22,568	-	-	-	-	-
		<u>₩ 509,488</u>	<u>151,198</u>	<u>374,834</u>	<u>643,081</u>	<u>488,818</u>	<u>179,448</u>	<u>(35,771)</u>

As of December 31, 2014, the Group applies cash flow hedge accounting, out of which the Group accounted for the effective portion of the hedge amounting to ₩(-)35,771 million, after netting off deferred tax effect of ₩(-)8,882 million and non-controlling interest portion of ₩100 million, as loss 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 within 71 months.

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**27. Capital and Capital Surplus**

- (1) The Group is authorized to issue 160,000,000 shares of capital stock (par value ₩5,000), and as of December 31, 2014 and 2013, the number of issued common shares is 76,000,000.

There have been no changes in the capital stock for the years ended December 31, 2014 and 2013.

- (2) Capital surplus

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

Capital surplus as of December 31, 2014 and 2013 is summarized as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Paid-in-capital in excess of par value	₩ 843,324	843,324
Gains on disposal of treasury stocks	204,339	204,339
From business combination	21,830	21,830
Other capital surplus	39,816	39,816
	<u>₩ 1,109,309</u>	<u>1,109,309</u>

- (3) Dividends paid by the Company for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
₩2,000 per qualifying ordinary share (2013: ₩2,500)	₩ 122,577	153,221

**28. Hybrid Bonds**

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

*(In millions of won)*

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

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**28. Hybrid Bonds, Continued**

(2) Terms and conditions of the hybrid bonds issued for the year ended December 31, 2014 are as follows:

(In millions of won)

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

The Company has an unconditional option to extend the maturity of hybrid bonds at maturity. Also payment of interest on bonds can be postponed at the discretion of the Company. If the payment of interest is postponed, the Company cannot resolve and pay the dividend of common stock until deferred interest is paid in full. The Company classify hybrid bonds as equity because the Company hold unconditional rights to avoid contractual obligation to deliver cash or another financial asset to another entity. In case of liquidation, the hybrid bonds is subordinated bonds which have priority for common stocks.

**29. Treasury Stock**

(1) Treasury stock of the Company as of December 31, 2014 and 2013 is summarized as follows:

(In millions of won, except share data)

	2014			2013		
	Number of shares	Acquisition cost	Fair value	Number of shares	Acquisition cost	Fair value
Treasury stock	14,711,560 ₩	1,400,455	1,691,829	14,711,560 ₩	1,400,455	3,780,871

(2) As of December 31, 2014, 6,063,000 of the Company's treasury stocks valued at ₩236,721 million at acquisition cost and ₩697,245 million at fair value are owned by Hyundai Mipo Dockyard Co., Ltd., a subsidiary of the Group. The Group recorded its portion as treasury stock in capital adjustments, in the amount of ₩99,089 million.

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**30. Accumulated Other Comprehensive Income**

(1) Accumulated other comprehensive income as of December 31, 2014 and 2013 is summarized as follows:

(In millions of won)

		<u>2014</u>	<u>2013</u>
Gain on valuation of available-for-sale financial assets	₩	780,350	1,264,447
Loss on valuation of derivatives		(61,700)	(34,711)
Exchange differences on translating foreign operations		(45,980)	(8,302)
Change in equity of equity method investments		73,822	18,539
	₩	<u>746,492</u>	<u>1,239,973</u>

(2) Other comprehensive income (loss) for the years ended December 31, 2014 and 2013 is as follows:

(In millions of won)

	<u>2014</u>			<u>2013</u>		
	<u>Other comprehensive income</u>	<u>Owners of the Company</u>	<u>Non- controlling interests</u>	<u>Other comprehensive income</u>	<u>Owners of the Company</u>	<u>Non- controlling interests</u>
Gain and loss on valuation of available for-sale financial assets, net of tax	₩ (495,770)	(484,097)	(11,673)	262,687	214,010	48,677
Gain and loss on valuation of derivatives, net of tax	(26,889)	(26,989)	100	(12,104)	(12,118)	14
Exchange differences on translating foreign operations, net of tax	(35,333)	(37,678)	2,345	(11,390)	(13,753)	2,363
Change in equity of equity method investments, net of tax	55,725	55,283	442	(19,949)	(19,793)	(156)
Retained Earnings of equity method investments, net of tax	8,391	8,266	125	1,439	1,474	(35)
Defined benefit plan actuarial losses, net of tax	(149,579)	(142,253)	(7,326)	65,606	61,364	4,242
	₩ <u>(643,455)</u>	<u>(627,468)</u>	<u>(15,987)</u>	<u>286,289</u>	<u>231,184</u>	<u>55,105</u>

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**31. Retained Earnings**

(1) Retained earnings as of December 31, 2014 and 2013 are summarized as follows:

*(In millions of won)*

	<u>2014</u>	<u>2013</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	626,667	570,000
Others	12,068,839	11,758,088
	<u>12,861,053</u>	<u>12,493,635</u>
<b>Unappropriated retained earnings</b>	(609,541)	1,779,050
	<u>₩ 14,271,926</u>	<u>16,293,099</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 shareholders.

(\*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, 2014 and 2013 are as follows:

*(In millions of won)*

	<u>2014</u>	<u>2013</u>
Beginning balance	₩ 16,293,099	16,098,025
Profit (loss) for the year	(2,206,065)	146,303
Less: non-controlling interests	436,851	132,402
Retained earnings of equity method	8,266	1,474
Actuarial losses	(142,253)	61,364
Dividends	(117,264)	(146,469)
Hybrid bonds interest	(708)	-
Ending balance	<u>₩ 14,271,926</u>	<u>16,293,099</u>

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**32. Acquisitions of Subsidiary and Non-controlling Interests**

- (1) There were no business combination transactions for the years ended December 31, 2014 and 2013.
- (2) Details of changes in the Group's interests in subsidiaries which did not result in a change in control during the year ended December 31, 2014 are as follows:
- (i) There is no increase in ownership
- (ii) Decrease in ownership

(In millions of won)

<b>Company</b>	<b>Ownership before transaction (%)</b>	<b>Ownership After Transaction (%)</b>	<b>Changes in equity grounds</b>	<b>Original cost and others</b>	<b>Increase in non-controlling interests</b>	<b>Increase (decrease) in controlling interest</b>
Hyundai Mipo Dockyard. Co. Ltd	45.21%	43.51%	Disposal	32,792	43,910	(11,118)
Hyundai Heavy Industries Brasil - Real Estate Developments	100.00%	97.09%	Stock exchange	911	663	248
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	100.00%	97.09%	Stock exchange	4,427	3,130	1,297
HI HIMSEN private equity fund specializing NO.1	75.00%	21.33%	Disproportionate paid-in capital increase	25,234	26,294	(1,060)
				63,364	73,997	(10,633)

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

(In millions of won)

	<b>Gain (loss) on loss of control(*)</b>	<b>Gain (loss) on measurement of remaining investments at fair value upon disposal</b>
Hyundai Investment Fund 1 on Patent Technology	₩ (171)	-
LS Leading Solution Private Security Investment Trust 22	2,764	-
LS Leading Solution Private Security Investment Trust 35	580	-
Eastspring Private Global Asset Allocation & Mining & Gold Fund of Funds Investment Trust A-1	(5,660)	-
HI Global Dynamic Asset Allocation Private Securities Investment Trust 1	325	-
	₩ (2,162)	-

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

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**33. Outstanding Contracts**

(1) Sales for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Construction contracts	₩ 23,156,471	22,915,120
Goods sold	28,397,268	30,258,310
Services	286,168	351,097
Interest income	192,908	202,515
Dividend income	5,090	4,089
Commission income	165,467	138,491
Gain on valuation of financial instruments	91,405	42,724
Gain on disposal of financial instruments	276,286	255,131
Other operating income	11,341	20,619
	<u>₩ 52,582,404</u>	<u>54,188,096</u>

(2) Changes in outstanding contracts and other sales for the year ended December 31, 2014 are as follows:

<i>(In millions of won)</i>	<u>Shipbuilding</u>	<u>Others</u>	<u>Total</u>
Beginning balance(*)	₩ 32,136,404	23,242,729	55,379,133
Increase during the period	11,023,039	36,505,753	47,528,792
Recognized as revenue	(16,432,220)	(36,150,184)	(52,582,404)
Ending balance	<u>₩ 26,727,223</u>	<u>23,598,298</u>	<u>50,325,521</u>

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

As of December 31, 2014, the Group has provided certain amount of financial institution guarantee deposits or letters of guarantee from various financial institutions to the customers, in connection with construction contracts.

(3) Accumulated revenue and cost of construction and others connected with construction in progress as of December 31, 2014 are as follows:

<i>(In millions of won)</i>	<u>Accumulated revenue of construction</u>	<u>Accumulated cost of construction</u>	<u>Accumulated profit and loss of construction</u>	<u>Billed receivables on construction contracts</u>	<u>Unbilled receivables on construction contracts</u>	<u>Due to customers for contract work</u>
Shipbuilding	₩ 13,934,036	14,669,873	(735,837)	969,276	5,540,745	4,736,702
Others	17,602,810	18,109,613	(506,803)	256,084	1,613,300	3,403,972
	<u>₩ 31,536,846</u>	<u>32,779,486</u>	<u>(1,242,640)</u>	<u>1,225,360</u>	<u>7,154,045</u>	<u>8,140,674</u>

Among the receivables on construction contracts, the amount of retentions according to the contract terms is ₩201,786 million.



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**34. Operating Segments**

The Group has 10 reportable segments described below, which are its strategic business units

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

Information about these reportable segments is as follows:

- (1) The financial performance of each segment for the years ended December 31, 2014 and 2013 is as follows:

*(In millions of won)*

		<b>2014</b>				
		<b>Sales</b>	<b>Inter-segment revenue</b>	<b>Operating profit</b>	<b>Profit (loss)</b>	<b>Depreciation</b>
Shipbuilding	₩	17,354,463	(922,243)	(1,895,913)	(1,293,834)	329,806
Offshore and Engineering		4,653,906	(525)	(230,305)	(210,493)	53,066
Industrial Plant and Engineering		2,566,403	(157,170)	(1,130,818)	(1,143,003)	12,623
Engine and Machinery		2,138,868	(620,786)	(10,870)	7,226	84,759
Electro Electric Systems		2,584,795	(230,216)	86,342	75,547	51,423
Construction Equipment		3,620,415	(753,630)	(33,391)	(65,977)	44,938
Green Energy		317,446	(5,143)	(16,532)	(36,973)	25,763
Financial Services		748,576	(6,096)	36,290	26,548	6,455
Oil Refining		25,940,550	(4,853,409)	228,451	51,939	255,370
Others		499,542	(293,342)	(287,627)	(263,374)	65,293
Consolidation adjustments(*)		(7,842,560)	7,842,560	4,918	646,329	(5,972)
	₩	<u>52,582,404</u>	<u>-</u>	<u>(3,249,455)</u>	<u>(2,206,065)</u>	<u>923,524</u>

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

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**34. Operating Segments, Continued**

- (1) Financial performance of each segment for the years ended December 31, 2014 and 2013 is as follows, continued:

(In millions of won)

		2013				
		Sales	Inter-segment revenue	Operating profit	Profit (loss)	Depreciation
Shipbuilding	₩	17,413,093	(394,768)	12,560	188,187	326,718
Offshore and Engineering		4,756,052	(4)	282,355	299,654	52,691
Industrial Plant and Engineering		1,374,249	(150,426)	61,376	80,638	10,076
Engine and Machinery		2,344,328	(622,158)	118,295	129,310	92,569
Electro Electric Systems		2,991,136	(229,817)	90,508	81,037	51,591
Construction Equipment		4,415,694	(1,126,065)	194,271	133,103	45,197
Green Energy		319,008	(4,644)	(103,155)	(208,474)	24,338
Financial Services		675,056	(11,486)	34,489	17,096	6,517
Oil Refining		26,446,251	(4,225,437)	404,388	165,334	222,879
Others		770,359	(552,325)	(281,061)	(633,228)	66,367
Consolidation adjustments(*)		(7,317,130)	7,317,130	(12,043)	(106,354)	(7,090)
	₩	<u>54,188,096</u>	<u>-</u>	<u>801,983</u>	<u>146,303</u>	<u>891,853</u>

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

- (2) The assets and liabilities of each segment as of December 31, 2014 and 2013 are as follows:

(In millions of won)

		2014		2013	
		Total assets	Total liabilities	Total assets	Total liabilities
Shipbuilding	₩	19,854,047	11,768,563	21,879,016	10,366,240
Offshore and Engineering		3,497,753	1,753,849	2,599,292	1,156,114
Industrial Plant and Engineering		2,092,646	3,439,383	1,452,877	2,170,197
Engine and Machinery		1,938,024	1,096,338	1,904,309	898,388
Electro Electric Systems		1,991,669	910,846	1,996,945	695,689
Construction Equipment		2,581,100	1,190,989	3,275,336	1,544,634
Green Energy		752,341	65,099	755,227	75,504
Financial Services		6,594,122	5,385,250	6,499,930	5,213,830
Oil Refining		8,801,272	5,320,108	9,413,841	6,173,808
Others		15,045,692	7,570,703	14,542,577	7,699,986
Consolidation adjustments(*)		(9,764,248)	(1,755,286)	(11,114,378)	(1,819,010)
	₩	<u>53,384,418</u>	<u>36,745,842</u>	<u>53,204,972</u>	<u>34,175,380</u>

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

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**34. Operating Segments, Continued**

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

(i) Sales for the years ended December 31, 2014 and 2013.

*(In millions of won)*

	2014		2013	
	Total sales	Intra-company revenue	Total sales	Intra-company revenue
Korea	₩ 50,704,232	(6,051,912)	52,794,634	(5,967,944)
North America	445,142	(4,424)	580,879	(5,576)
Asia	8,667,927	(1,759,573)	7,546,393	(1,301,256)
Europe	413,067	(16,090)	433,424	(35,444)
Others	194,596	(10,561)	149,896	(6,910)
Consolidation adjustments(*)	(7,842,560)	7,842,560	(7,317,130)	7,317,130
	₩ <u>52,582,404</u>	<u>-</u>	<u>54,188,096</u>	<u>-</u>

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

(ii) Non-current assets as of December 31, 2014 and 2013

*(In millions of won)*

	2014	2013
Korea	₩ 16,406,153	16,049,646
North America	122,871	129,355
Asia	417,803	433,148
Europe	80,653	116,343
Others	119,441	125,887
	<u>17,146,921</u>	<u>16,854,379</u>
Consolidation adjustments(*1)	1,518,404	1,577,884
Total(*2)	₩ <u>18,665,325</u>	<u>18,432,263</u>

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

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

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**35. Selling, General and Administrative Expenses**

Selling, general and administrative expenses for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Salaries	₩ 721,404	675,758
Post-employment benefit costs	71,224	44,193
Employee welfare	164,780	141,558
Depreciation	93,076	92,236
Bad debt expenses	295,907	260,674
Ordinary development costs	183,448	155,413
Advertising	61,841	65,314
Printing	3,243	3,235
Warranty expenses	140,753	153,375
Insurance	14,513	16,116
Supplies	14,970	10,605
Utilities	7,759	9,545
Repairs	6,934	10,249
Travel	26,246	29,631
Research	35,271	25,954
Training	13,894	12,348
Service contract expenses	66,725	72,996
Transportation	210,516	231,636
Rent	48,300	51,296
Data processing	21,363	18,611
Entertainment	13,163	14,296
Taxes and dues	41,164	39,398
Service charges	99,343	112,142
Automobile maintenance	11,818	12,419
Sales commissions	57,512	78,324
Others	107,250	115,806
	<u>₩ 2,532,417</u>	<u>2,453,128</u>

**36. Nature of Expenses**

The classification of expenses by nature for the years ended December 31, 2014 and 2013 is as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Changes in inventories	₩ 257,753	(29,786)
Purchase of inventories	39,066,616	36,901,974
Depreciation	923,524	891,853
Amortization	94,649	89,295
Labor cost	3,610,253	3,382,329
Other expenses	11,879,064	12,150,448
	<u>₩ 55,831,859</u>	<u>53,386,113</u>

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

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**37. Finance Income and Finance Costs**

Finance income and finance costs for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	<u>2014</u>	<u>2013</u>
<b>Finance income:</b>		
Interest income	₩ 100,453	120,619
Gain on valuation of financial instruments at fair value through profit or loss	10,021	4,140
Gain on disposal of financial instruments at fair value through profit or loss	84,374	70,611
Gain on disposal of available-for-sale financial assets	228,659	64
Dividend income	40,716	40,293
Gain on foreign currency translation	171,052	136,297
Gain on foreign currency transactions	695,354	759,932
Gain on valuation of derivatives	19,365	552,332
Gain on derivatives transactions	261,074	173,076
Others	45	110
	<u>₩ 1,611,113</u>	<u>1,857,474</u>
<b>Finance costs:</b>		
Interest expense	₩ 255,332	322,751
Loss on valuation of financial instruments at fair value through profit or loss	8,891	1,619
Loss on disposal of financial instruments at fair value through profit or loss	67,575	109,045
Loss on disposal of available-for-sale financial assets	2,987	65
Impairment loss on available-for-sale financial assets	43,622	158,747
Loss on foreign currency translation	218,660	138,709
Loss on foreign currency transactions	774,579	740,787
Loss on valuation of derivatives	397,001	7,081
Loss on derivatives transactions	169,614	213,902
Others	8	4
	<u>₩ 1,938,269</u>	<u>1,692,710</u>

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

Other non-operating income and other non-operating expenses for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	<u>2014</u>	<u>2013</u>
<b>Other non-operating income:</b>		
Gain on disposal of investments in associates and joint ventures	₩ 210,892	177
Gain on disposal of Investment Property	-	2,816
Gain on disposal of property, plant and equipment	18,876	13,860
Gain on disposal of intangible assets	800	132
Gain on valuation of firm commitments	488,818	129,767
Reversal of other allowance doubtful accounts	25,674	-
Others(*1)	225,666	258,448
	<u>₩ 970,726</u>	<u>405,200</u>
<b>Other non-operating expenses:</b>		
Service charges	₩ 10,332	13,446
Non-current assets classified as held for sale loss on impairment	-	3,931
Impairment loss on other current assets	6,593	-
Loss on disposal of property, plant and equipment	15,542	75
Impairment loss on intangible assets	61,839	19,861
Loss on disposal of investments in associates and joint ventures	8,654	156
Loss on disposal of non-current assets classified as held for sale	-	5,237
Loss on disposal of investment property	50	-
Loss on disposal of property, plant and equipment	19,583	24,088
Loss on disposal of intangible assets	576	473
Loss on valuation of firm commitments	179,448	637,664
Other bad debt expenses	3,965	35,916
Donation	56,598	44,618
Others(*2)	98,880	252,994
	<u>₩ 462,060</u>	<u>1,038,459</u>

(\*1) For the years ended December 31, 2014 and 2013, penalty income related to the cancelation of the contracts are recognized as other non-operating income amounting to ₩ 104,696 million and ₩ 51,748 million, respectively. In addition, for the year ended December 31, 2013, compensation income upon winning lawsuit of ₩ 63,352 million is recognized as other non-operating income.

(\*2) For the year ended December 31, 2013, costs related to cancellation of contracts of ₩ 67,971 million are recognized as other non-operating.

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**39. Income Tax Expense (income)**

- (1) The components of income tax expense (income) for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Current tax expense	₩ 70,514	289,966
Adjustment for prior periods	7,125	(76,832)
Origination and reversal of temporary differences	(1,198,172)	(101,027)
Income tax recognized in other comprehensive income	221,553	(114,117)
Total income tax expense (Income)	<u>₩ (898,980)</u>	<u>(2,010)</u>

- (2) Income tax recognized directly in other comprehensive income for the years ended December 31, 2014 and 2013 is as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Gain (loss) on valuation of available-for-sale financial assets	₩ 157,902	(90,129)
Gains on valuation of derivatives	8,882	2,693
Defined benefit plan actuarial gain (loss)	52,598	(25,302)
Hybrid bonds interest	225	-
Others	1,946	(1,379)
Income tax recognized directly in other comprehensive income	<u>₩ 221,553</u>	<u>(114,117)</u>

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

- (3) Reconciliation of effective tax rate for the years ended December 31, 2014 and 2013 is as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Profit (loss) before income tax	₩ (3,105,045)	144,293
Income tax using the each component's statutory tax rate	(900,417)	70,793
Adjustment for:		
- Tax effect of non-deductible expenses	8,937	17,235
- Tax effect of non-taxable income	(13,540)	(7,784)
- Tax credits	(20,253)	(26,038)
- Current adjustments for prior periods	7,125	(76,832)
- Others	19,168	20,616
Income tax expenses (benefits)	<u>₩ (898,980)</u>	<u>(2,010)</u>
Effective tax rate	<u>% (*)</u>	<u>(*)</u>

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

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**39. Income Tax Expense (Income), Continued**

(4) Deferred tax expenses by origination and reversal of deferred assets and liabilities and temporary differences for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Deferred assets (liabilities) at the end of the period	₩ 393,481	(805,843)
Deferred assets (liabilities) at the beginning of the period	(805,843)	(907,041)
Others	1,152	171
Deferred tax expenses by origination and reversal of temporary differences	₩ <u>(1,198,172)</u>	<u>(101,027)</u>

(5) As of December 31, 2014, the tax effects of temporary difference were calculated using the enacted statutory tax rate for the fiscal period when the temporary differences are expected to be reversed.

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

(7) Changes in deferred tax assets (liabilities) for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>Beginning balance</u>	<u>Change</u>	<u>Ending balance</u>
<b>2014</b>			
Investments in subsidiaries and associates	₩ (229,410)	(59,936)	(289,346)
Available-for-sale financial assets	(532,732)	555,386	22,654
Reserve for research and human development	(152,503)	41,465	(111,038)
Trade and other receivables	241,599	50,897	292,496
Asset revaluation	(401,897)	7,651	(394,246)
Property, plant and equipment	(63,724)	5,849	(57,875)
Derivatives	(27,465)	38,713	11,248
Accrued expenses	30,810	20,811	51,621
Provisions	233,769	254,805	488,574
Others	95,710	283,683	379,393
	₩ <u>(805,843)</u>	<u>1,199,324</u>	<u>393,481</u>
<b>2013</b>			
Investments in subsidiaries and associates	₩ (263,872)	34,462	(229,410)
Available-for-sale financial assets	(484,760)	(47,972)	(532,732)
Reserve for research and human development	(138,437)	(14,066)	(152,503)
Trade and other receivables	203,427	38,172	241,599
Asset revaluation	(408,844)	6,947	(401,897)
Property, plant and equipment	(54,671)	(9,053)	(63,724)
Derivatives	(44,734)	17,269	(27,465)
Accrued expenses	27,432	3,378	30,810
Provisions	162,859	70,910	233,769
Others	94,559	1,151	95,710
	₩ <u>(907,041)</u>	<u>101,198</u>	<u>(805,843)</u>

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



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**40. Earnings (Loss) per Share**

(1) Basic earnings (loss) per share for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Profit (loss) attributable to owners of the Company	₩ (1,769,215)	278,706
Interest of hybrid bonds	(708)	-
Weighted average number of ordinary shares outstanding <i>(In thousands of shares)</i>	<u>55,225</u>	<u>55,225</u>
Earnings (loss) per share <i>(In won)</i>	<u>₩ (32,049)</u>	<u>5,047</u>

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

<i>(In shares)</i>	<u>Number of shares outstanding</u>	<u>Weighted average</u>	<u>Weighted average number of shares outstanding</u>
Beginning balance	55,225,440	365/365	55,225,440

(3) Since there are no dilutive potential common shares for the years ended December 31, 2014 and 2013, diluted earnings per share have not been calculated.

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**41. Cash Generated from Operations**

(1) Cash generated from operations for the years ended December 31, 2014 and 2013 are summarized as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
<b>Profit (loss) for the year</b>	₩ (2,206,065)	146,303
<b>Adjustments for:</b>		
Post-employment benefit costs	380,318	216,994
Depreciation	923,524	891,853
Amortization	94,649	89,295
Bad debt expenses	295,907	260,674
Compensation expenses associated with stock options	(10,076)	7,376
Finance income	(570,266)	(853,745)
Finance costs	1,065,566	715,539
Other non-operating income	(838,492)	(175,519)
Other non-operating expenses	336,510	819,660
Share of profit of equity accounted investees	37,100	189,195
Income tax expense	(898,980)	(2,010)
Finance income (sales)	(306,734)	(270,698)
Finance costs (cost of sales)	198,080	159,527
<b>Changes in assets and liabilities:</b>		
Short-term financial assets	(185,001)	(2,124,791)
Trade receivables	1,231,563	(193,078)
Other receivables	10,961	56,253
Due from customers for contract work	(374,519)	(1,662,330)
Inventories	257,753	(29,786)
Derivatives	588,961	821,830
Firm commitments	(375,430)	(344,777)
Other current assets	(129,642)	297,105
Long-term financial assets	(1,147)	1,349
Long-term trade receivables	(6,360)	(319,363)
Long-term other receivables	(2,824)	-
Other non-current assets	1,301	337
Short-term financial liabilities	927,205	1,034,265
Trade payables	(507,952)	557,656
Other payables	523,935	152,549
Advances from customers	18,157	(88,980)
Due to customers for contract work	1,415,486	956,977
Other current liabilities	12,891	(25,694)
Long-term other payables	(29,090)	(40,135)
Benefits paid	(185,810)	(83,494)
Succession of benefits	1,168	5,623
Plan assets	6,500	(152,647)
Long-term provisions	(50,756)	159,071
Other non-current liabilities	(8,441)	2,808
	₩ <u>3,846,015</u>	<u>1,028,889</u>

(2) Significant transactions that do not involve cash inflows and outflows as of 2014 and 2013 are as follow:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Reclassification of construction-in-progress	₩ 908,715	628,157
Reclassification of current portion of bond and borrowings	2,570,104	2,260,869
Increase (decrease) of change in fair value of available-for-sale financial assets	(495,770)	262,687

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

(1) Categories of financial instruments as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

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

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

(1) Categories of financial instruments as of December 31, 2014 and 2013 are summarized as follows, continued:

(In millions of won)

	2013									
	Cash and cash equivalents	Held-for- trading investments	Financial assets at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Derivative assets	Held-for- trading liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortized cost	Derivative liabilities
Cash and cash equivalents	₩ 1,336,613	-	-	-	-	-	-	-	-	-
Short-term financial assets	-	3,882,033	191,489	202,070	416,737	-	-	-	-	-
Trade and other receivables	-	-	-	-	7,053,565	-	-	-	-	-
Due from customers for contract work	-	-	-	-	6,675,112	-	-	-	-	-
Derivative assets (current)	-	-	-	-	-	512,918	-	-	-	-
Long-term financial assets	-	5,717	63,783	3,237,958	15,146	-	-	-	-	-
Long-term trade and other receivables	-	-	-	-	1,088,685	-	-	-	-	-
Derivative assets (non-current)	-	-	-	-	-	254,532	-	-	-	-
Short-term financial liabilities	-	-	-	-	-	-	1,147,270	106,363	10,946,288	-
Trade and other payables	-	-	-	-	-	-	-	-	6,354,333	-
Derivative liabilities (current)	-	-	-	-	-	-	-	-	-	74,482
Long-term financial liabilities	-	-	-	-	-	-	9,950	377,654	5,214,934	-
Long-term trade and other liabilities	-	-	-	-	-	-	-	-	134,150	-
Derivative liabilities (non-current)	-	-	-	-	-	-	-	-	-	31,378
	₩ 1,336,613	3,887,750	255,272	3,440,028	15,249,245	767,450	1,157,220	484,017	22,649,705	105,860

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

(2) Financial instruments income and costs by categories for the years ended December 31, 2014 and 2013 are as follows:

(In millions of won)

	Profit (loss) for the year		Other comprehensive income (loss)		Interest income and interest expense(*)		Fee income and fee expense		Impairment loss	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Cash and cash equivalents ₩	53,578	105,514	-	-	43,779	40,241	-	-	-	-
Held for trading investments	279,469	131,602	-	-	106,615	95,311	-	-	-	-
Financial assets at fair value through profit or loss	(19,647)	25,482	-	-	1,202	-	-	-	-	-
Available-for-sale financial assets	237,032	(99,164)	(495,770)	262,687	6,319	7,543	1,421	1,209	(50,070)	(159,508)
Loans and receivables	(22,852)	(290,685)	-	-	135,445	180,040	3,822	6,987	(299,669)	(322,954)
Held for trading liabilities	(134,012)	(83,960)	-	-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss	(11,263)	(28,869)	-	-	(2,078)	-	-	-	-	-
Financial liabilities measured at amortized cost	(725,067)	(384,592)	-	-	(464,061)	(498,571)	-	-	-	-
Derivatives	(290,486)	515,467	(26,889)	(12,104)	-	-	-	-	-	-

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

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**43. Financial Instruments**

(1) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as of December 31, 2014 and 2013 is as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Held-for-trading investments	₩ 3,968,108	3,887,750
Financial assets at fair value through profit or loss	388,761	255,272
Available-for-sale financial assets	2,481,074	3,440,028
Loans and receivables	14,218,899	15,249,245
Derivative assets	146,805	767,450
	<u>₩ 21,203,647</u>	<u>23,599,745</u>

The maximum exposure to credit risk for financial guarantee contracts is ₩32,976 million as of December 31, 2014 (see notes 46).

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

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Korea	₩ 3,314,035	4,051,568
North America	1,865,707	2,205,422
Asia	3,227,740	3,263,791
Europe	3,678,061	4,079,597
Others	2,133,356	1,648,867
	<u>₩ 14,218,899</u>	<u>15,249,245</u>

(ii) Impairment loss

The aging of loans and receivables and the related allowance for impairment as of December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>		<u>2013</u>	
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
Not past due	₩ 13,095,697	(314,116)	14,253,429	(269,293)
Past due up to 6 months	720,635	(62,263)	843,751	(126,199)
Past due 6~12 months	361,423	(113,908)	425,504	(214,948)
Past due 1~3 years	1,356,610	(842,182)	784,167	(459,510)
More than three years	166,528	(149,525)	128,644	(116,300)
	<u>₩ 15,700,893</u>	<u>(1,481,994)</u>	<u>16,435,495</u>	<u>(1,186,250)</u>

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**43. Financial Instruments, Continued**

(1) Credit risk, continued

(ii) Impairment loss, continued

The movement in the allowance for impairment in respect of loans and receivables during the years ended December 31, 2014 and 2013 is as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Beginning balance	₩ 1,186,250	960,441
Impairment loss recognized	331,915	331,203
Reversal of allowance accounts	(32,246)	(8,785)
Write-offs and others	(3,925)	(96,609)
Ending balance	<u>₩ 1,481,994</u>	<u>1,186,250</u>

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

For the years ended December 31, 2014 and 2013, impairment losses and impairment reversals that occur in other receivables, recorded as other non-operating income are as follows.

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Other bad debt expense	₩ 3,965	35,916
Reversal of other allowance doubtful accounts	(25,674)	-
	<u>₩ (21,709)</u>	<u>35,916</u>

(iii) The analysis of the aging of financial assets that are past due as of December 31, 2014 and 2013 but not impaired is summarized as follows:

<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	₩ 1,437,318	658,372	247,515	514,428	17,003

<i>(In millions of won)</i>	<u>2013</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	₩ 1,265,109	717,552	210,556	324,657	12,344

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43. Financial Instruments, Continued

(2) Liquidity risk

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

(In millions of won)

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

The maximum amount of assurance for financial guarantee contracts is ₩32,976 million as of December 31, 2014 (see Note 46).

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

(ii) The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2013 are summarized as follows:

(In millions of won)

		2013					
		Carrying amount	Contractual cash flow	6 months or less	6~12 months	1~3 years	More than 3 years
<b>Non-derivative financial liabilities:</b>							
Held for trading liabilities	₩	1,629,168	1,629,168	1,232,641	18,874	360,230	17,423
Bank loans		12,953,423	13,250,601	8,753,701	1,689,051	1,930,662	877,187
Bond issues		2,889,734	3,091,408	240,636	142,902	1,752,149	955,721
Trade and other payables		6,488,483	6,579,216	6,328,257	116,641	125,155	9,163
Deposit liabilities		304,417	304,417	304,417	-	-	-
Others		13,648	13,648	13,648	-	-	-
<b>Derivative financial liabilities:</b>							
Derivative contracts used for hedging:							
Outflow		105,859	109,630	40,971	35,015	32,542	1,102
Other derivative contracts:							
Outflow		12,069	12,069	2,034	84	8,550	1,401
	₩	<u>24,396,801</u>	<u>24,990,157</u>	<u>16,916,305</u>	<u>2,002,567</u>	<u>4,209,288</u>	<u>1,861,997</u>



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43. Financial Instruments, Continued

(2) Liquidity risk, continued

(iii) The periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won)

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

(In millions of won)

		2013					
		Carrying amount	Expected cash flows	6 months or less	6~12 months	1~3 years	More than 3 years
<b>Forward exchange contracts</b>							
Assets	₩	53,616	54,745	38,012	10,396	6,176	161
Liabilities		(94,300)	(97,741)	(38,913)	(30,707)	(28,111)	(10)
<b>Product forward</b>							
Assets		2,190	2,190	2,190	-	-	-
Liabilities		(2,839)	(2,839)	(2,839)	-	-	-
<b>Interest rate swaps</b>							
Liabilities		(4,028)	(4,275)	(718)	(661)	(1,814)	(1,082)
	₩	<u>(45,361)</u>	<u>(47,920)</u>	<u>(2,268)</u>	<u>(20,972)</u>	<u>(23,749)</u>	<u>(931)</u>

(3) Currency risk

(i) Exposure to currency risk

The Group's exposure to foreign currency risk based on notional amounts as of December 31, 2014 and 2013 is as follows:

(In millions of won)

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

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**43. Financial Instruments, Continued**

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

(In millions of won)

	2013					
	USD	EUR	CNY	JPY	Others	Total
Cash and cash equivalents	₩ 363,738	750	186	237	22,912	387,823
Loans and receivables	10,514,735	183,829	44,777	6,415	481,807	11,231,563
Trade and other payables	(3,209,963)	(128,676)	(1,238)	(4,984)	(92,583)	(3,437,444)
Borrowings	(2,752,442)	(298,481)	-	(104,277)	(4,794)	(3,159,994)
Gross statement of financial position exposure	4,916,068	(242,578)	43,725	(102,609)	407,342	5,021,948
Derivative contracts	672,385	18,271	-	(16,279)	(1,133)	673,244
Net exposure	₩ 5,588,453	(224,307)	43,725	(118,888)	406,209	5,695,192

Significant exchange rates applied for the years ended December 31, 2014 and 2013 are as follows:

(In won)

	Average rate		Spot rate	
	2014	2013	2014	2013
USD	₩ 1,053.22	1,095.04	1,099.20	1,055.30
EUR	1,398.82	1,453.56	1,336.52	1,456.26
CNY	170.93	178.1	176.81	174.09
JPY(100)	996.19	1,123.41	920.14	1,004.66

- (ii) Sensitivity analysis

A weakening of the won, as indicated below, against the USD, EUR, CNY, JPY and other currencies as of December 31, 2014 and 2013 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013. The changes in profit or loss are as follows:

(In millions of won)

	Profit or loss	
	2014	2013
USD (3 percent strengthening)	₩ 139,559	167,654
EUR (3 percent strengthening)	(9,124)	(6,729)
CNY (3 percent strengthening)	3,201	1,312
JPY (3 percent strengthening)	(3,867)	(3,567)

A strengthening of the won against the above currencies as of December 31, 2014 and 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above assuming all other variables remain constant.

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**43. Financial Instruments, Continued**

(4) Interest rate risk

(i) The interest rate profile of the Group's interest-bearing financial instruments as of December 31, 2014 and 2013 is as follows:

*(In millions of won)*

	<u>2014</u>	<u>2013</u>
<b>Fixed rate instruments:</b>		
Financial assets	₩ 6,576,330	6,097,337
Financial liabilities	(13,855,120)	(13,247,183)
	<u>₩ (7,278,790)</u>	<u>(7,149,846)</u>
<b>Variable rate instruments:</b>		
Financial assets	₩ 1,980,954	1,104,727
Financial liabilities	(2,706,472)	(2,602,830)
	<u>₩ (725,518)</u>	<u>(1,498,103)</u>

(ii) Interest rate risk arises from savings and borrowings with floating interest rates. The Group properly hedges the risk borrowings with floating interest rates through interest rate swaps. Interest rate swap contracts as of December 31, 2014 are as follows:

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

<u>Counterparties</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Expiration date</u>
The Korea Development Bank	KRW 60,000	Receives floating interest rate Pays fixed interest rate	CD (91 days)+1.95% 6.73%
JP Morgan	KRW 250,000	Receives floating interest rate Pays fixed interest rate	CD (91 days) 2.68%~3.07%
Standard Chartered Bank	USD 7,500	Receives floating interest rate Pays fixed interest rate	LIBOR+2.7% 4.00%
	USD 20,000	Receives floating interest rate Pays fixed interest rate	CDI+0.64% 9.43%

(iii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates as of December 31, 2014 and 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013. The changes in equity and profit or loss are as follows:

*(In millions of won)*

		<u>Profit or loss</u>		<u>Equity</u>	
		<u>100 bp increase</u>	<u>100 bp decrease</u>	<u>100 bp increase</u>	<u>100 bp decrease</u>
<b>2014</b>					
Variable rate instruments	₩	(7,255)	7,255	-	-
Interest rate swaps		3,402	(3,402)	1,595	(1,595)
Net cash flow sensitivity	₩	<u>(3,853)</u>	<u>3,853</u>	<u>1,595</u>	<u>(1,595)</u>
<b>2013</b>					
Variable rate instruments	₩	(14,981)	14,981	-	-
Interest rate swaps		3,460	(3,460)	519	(546)
Net cash flow sensitivity	₩	<u>(11,521)</u>	<u>11,521</u>	<u>519</u>	<u>(546)</u>

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43. Financial Instruments, Continued

(5) Fair values

(i) Fair values versus carrying amounts

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

(In millions of won)

	2014		2013	
	Carrying amounts	Fair value	Carrying amounts	Fair value
<b>Assets carried at fair value:</b>				
Held for trading investments	₩ 3,968,108	3,968,108	3,887,750	3,887,750
Financial assets at fair value through profit or loss	388,761	388,761	255,272	255,272
Available-for-sale financial assets(*)	2,481,074	2,481,074	3,440,028	3,440,028
Derivative assets	146,805	146,805	767,450	767,450
	₩ 6,984,748	6,984,748	8,350,500	8,350,500
<b>Cash and cash equivalents</b>	₩ 3,229,315	3,229,315	1,336,613	1,336,613
<b>Assets carried at amortized cost:</b>				
Loans and receivables	₩ 14,218,899	14,218,899	15,249,245	15,249,245
<b>Liabilities carried at fair value:</b>				
Held for trading liabilities	₩ 1,654,830	1,654,830	1,157,220	1,157,220
Financial liabilities at fair value through profit or loss	1,075,508	1,075,508	484,017	484,017
Derivative liabilities	367,357	367,357	105,860	105,860
	₩ 3,097,695	3,097,695	1,747,097	1,747,097
<b>Liabilities carried at amortized cost:</b>				
Bank loans	₩ 12,840,581	12,840,581	12,953,423	12,953,423
Bond issues	3,702,546	3,702,546	2,889,734	2,889,734
Trade and other payables	6,466,565	6,466,565	6,488,483	6,488,483
Deposit liabilities	285,028	285,028	304,417	304,417
Others	11,251	11,251	13,648	13,648
	₩ 23,305,971	23,305,971	22,649,705	22,649,705

(\*) 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, 2014 and 2013 are ₩99,169 million and ₩114,633 million, respectively.

(ii) Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. The interest rates applied as of December 31, 2014 and 2013 are as follows:

	2014	2013
Available-for-sale financial assets	2.07%~13.92%	2.55%~16.96%
Derivatives	2.07%~5.86%	1.96%~5.03%

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**43. Financial Instruments, Continued**

(5) Fair values, continued

(iii) Fair value hierarchy

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

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

The financial instruments carried at fair value, by fair value hierarchy as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>2014</b>					
Held for trading investments	₩	934,946	3,001,080	32,082	3,968,108
Financial assets at fair value					
through profit or loss		-	135,839	252,922	388,761
Available-for-sale financial assets		2,072,015	236,133	73,757	2,381,905
Derivative assets		-	146,805	-	146,805
Held for trading liabilities		1,377,832	134,498	142,500	1,654,830
Financial liabilities at fair value					
through profit or loss		-	-	1,075,508	1,075,508
Derivative liabilities		-	367,357	-	367,357
<b>2013</b>					
Held for trading investments		1,085,808	2,765,816	36,126	3,887,750
Financial assets at fair value					
through profit or loss		-	155,157	100,115	255,272
Available-for-sale financial assets		3,017,887	214,012	93,496	3,325,395
Derivative assets		-	767,450	-	767,450
Held for trading liabilities		1,014,452	132,849	9,919	1,157,220
Financial liabilities at fair value					
through profit or loss		-	-	484,017	484,017
Derivative liabilities		-	105,860	-	105,860

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

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**43. Financial Instruments, Continued**

(5) Fair values, Continued

(iii) Fair value hierarchy, Continued

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

Specific valuation techniques used to value financial instruments include:

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

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

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**43. Financial Instruments, Continued**

- (6) The valuation of the fair value hierarchy Level 2 and inputs description.  
The valuation techniques and input variables used in measuring Level 2 fair values as of December 31, 2014 and December 31, 2013 are as follows:

(In millions of won)

	<u>2014</u>	<u>2013</u>	<u>Valuation techniques</u>	<u>Input variables</u>
<b>Held-for-trading investments:</b>				
Debt securities	₩ 2,986,838	2,749,577	Cash flow discount model and others	Discount rate and others
Beneficiary certificates	10,661	7,259	Net asset value, cash flow discount model and others	Discount rate and others
Derivatives	581	8,980	Cash flow discount model and others	Currency forward price, discount rate and others
Others	3,000	-	Base price	
	<u>3,001,080</u>	<u>2,765,816</u>		
<b>Financial assets at fair value through profit or loss:</b>				
Others	135,839	155,157	Net asset value, cash flow discount model and others	Discount rate and others
<b>Available-for-sale financial assets:</b>				
Debt securities	176,462	182,973	Cash flow discount model and others	Discount rate and others
Beneficiary certificates	50,835	31,039	Market approach, net asset value, Cash flow discount model and others	CER future price, discount rate and others
Others	8,836	-	Net asset value and others	
	<u>236,133</u>	<u>214,012</u>		
<b>Derivatives assets:</b>				
Derivatives	146,805	767,450	Cash flow discount model and others	Currency forward price, discount rate and others
<b>Held-for-trading liabilities:</b>				
Sale of securities	130,995	130,853	Cash flow discount model and others	Discount rate and others
Derivatives	2,997	1,996	Cash flow discount model and others	Currency forward price, discount rate and others
Others	506	-	Cash flow discount model and others	Currency forward price, discount rate and others
	<u>134,498</u>	<u>132,849</u>		
<b>Derivatives liabilities:</b>				
Derivatives	367,357	105,860	Cash flow discount model and others	Currency forward price, discount rate and others

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**43. Financial Instruments, Continued**

- (7) Level 3 fair values  
(i) Changes in assets and liabilities which are classified as Level 3 fair values among assets and liabilities measured at fair value for the year ended December 31, 2014 and 2013 are as follows

*(In millions of won)*

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

*(In millions of won)*

	<b>2013</b>						
	<b>Beginning Balance</b>	<b>Acquisitions</b>	<b>Disposals</b>	<b>Transfer to Level 3</b>	<b>Transfer from Level 3</b>	<b>Valuation</b>	<b>Ending Balance</b>
Held-for-trading investments	₩ 62,346	30,669	(62,162)	-	-	5,273	36,126
Financial assets at fair value through profit or loss	48,154	140,153	(87,475)	-	-	(717)	100,115
Available-for-sale financial assets	92,828	7,606	(6,700)	-	-	(238)	93,496
Held-for-trading liabilities	-	10,779	-	-	-	(860)	9,919
Financial liabilities at fair value through profit or loss	38,283	773,650	(327,576)	-	-	(340)	484,017



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**43. Financial Instruments, Continued**

(7) Level 3 fair values, continued

(ii) The valuation techniques and input variables used in measuring Level 3 fair values as of December 31, 2014 and 2013 are as follows:

(In millions of won)

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

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**43. Financial Instruments, Continued**

(7) Level 3 fair values, continued

(ii) The valuation techniques and input variables used in measuring Level 3 fair values as of December 31, 2014 and 2013 are as follows, continued:

(In millions of won)

	2013	Valuation techniques	Input variables	Significant unobservable input variables	Ranges of significant unobservable input variables
<b>Held-for-trading investments:</b>					
Debt securities ₩	30,010	Cash flow discount model	Discount rate and others	-	-
Derivatives	6,116	Black-Scholes Models and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.019911 ~ 0.419731
<b>Financial asset at fair value through profit or loss:</b>					
Others	100,115	Black-Scholes Models and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.001609 ~ 0.176500
<b>Available-for-sale financial assets:</b>					
Equity securities	68,685	Cash flow discount model	Discount rate and others	Discount rate and others	4.58% ~ 14.16%
Debt securities	6,138	Cash flow discount model	Discount rate and others	-	-
Beneficiary certificates	1,505	Base price	-	-	-
Others	17,168	Cash flow discount model	Discount rate and others	-	-
	93,496				
<b>Financial liabilities held for trading:</b>					
Derivatives	9,919	Black-Scholes model and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.019911 ~ 0.419731
<b>Financial liabilities at fair value through profit or loss:</b>					
Others	484,017	Black-Scholes model and others	Volatility and others	Underlying asset price, volatility of underlying asset and others	0.001609 ~ 0.505718

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**43. Financial Instruments, Continued**

(7) Level 3 fair values, continued

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

(In millions of won)

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

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**43. Financial Instruments, Continued**

(7) Level 3 fair values, continued

(iv) Effects by changes in unobservable input variables on fair value measurement of financial assets and liabilities as of December 31, 2013 is as follows:

(In millions of won)

	Unobservable input variables	Effects by changes in unobservable input variables on fair value measurement	Measuring methods of the effect of changes	Effects of changes in fair value			
				Profit (loss) for the year		Other comprehensive income (loss)	
				Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
<b>For sale financial asset:</b>							
Derivatives	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10 Volatility increase or decrease	₩ 2,042	(2,905)	-	-
<b>Financial asset at fair value through profit or loss:</b>							
Others	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10 Volatility increase or decrease	992	(1,034)	-	-
<b>Available-for-sale financial assets:</b>							
Equity securities	Discount rate	Fair value decrease by discount rate increase	Measuring fair value changes by 1% discount rate increase or decrease	-	-	8,666	(6,028)
<b>Financial liabilities held for trading:</b>							
Derivatives	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10 Volatility increase or decrease	437	(502)	-	-
<b>Financial liabilities at fair value through profit or loss:</b>							
Others	Volatility of underlying asset	Fair value decrease by Volatility increase	Measuring fair value changes by 10 Volatility increase or decrease	4,922	(3,833)	-	-

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

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**43. Financial Instruments, Continued**

(8) Transfer of financial assets

Transferred financial assets that are not derecognized in their entirety as of December 31, 2014 and 2013 are as follows:

*(In millions of won)*

	<b>Financial asset at fair value through profit or loss</b>		<b>Loans and receivables</b>			
	<b>Financial assets held for trading</b>		<b>Account receivable</b>		<b>Long-term other receivables</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Carrying amount of asset	₩ 177,928	617,031	-	5,564	-	15,415
Carrying amount of related liabilities	168,700	588,800	-	5,008	-	14,343
<b>For those liabilities that have recourse only to the transferred assets:</b>						
Fair value of assets	177,928	617,031	-	5,564	-	15,415
Fair value of related liabilities	168,700	588,800	-	5,008	-	14,343
Net position	9,228	28,231	-	556	-	1,072

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**43. Financial Instruments, Continued**

(9) Offsetting of financial assets and financial liabilities

The details of financial assets or financial liabilities netting arrangements as of December 31, 2014 and 2013 are as follows:

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

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

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**43. Financial Instruments, Continued**

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

The details of financial assets or financial liabilities netting arrangements as of December 31, 2014 and 2013 are as follows, continued:

(In millions of won)

	<b>2013</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>Related amount : won't be setoff in the Statement of Financial Position</b>		<b>Net amount</b>
				<b>Financial instruments</b>	<b>Received cash security</b>	
<b>Financial assets</b>						
Held for trading investments	₩ 622,947	-	622,947	(622,947)	-	-
Financial assets at fair value through profit or loss	90,451	-	90,451	(90,451)	-	-
Loans and receivables	324,699	(147,259)	177,440	(166,038)	-	11,402
	<u>₩ 1,038,097</u>	<u>(147,259)</u>	<u>890,838</u>	<u>(879,436)</u>	<u>-</u>	<u>11,402</u>
<b>Financial liabilities</b>						
Held for trading liabilities	₩ 1,146,633	-	1,146,633	(1,146,633)	(29,000)	-
Financial liabilities at fair value through profit or loss	480,311	-	480,311	(480,311)	-	-
Financial liabilities carried at amortized cost	839,177	(147,259)	691,918	(601,437)	-	90,481
	<u>₩ 2,466,121</u>	<u>(147,259)</u>	<u>2,318,862</u>	<u>(2,228,381)</u>	<u>(29,000)</u>	<u>90,481</u>

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

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**44. Commitments and Contingencies**

- (1) As of December 31, 2014, the Group has entered into bank overdraft agreements with Korea Exchange Bank and others amounting to ₩567,000 million, USD 25,000 thousand, EUR 7,500 thousand, CNY 150,000 thousand and general loan agreements amounting to ₩1,600,000 million, USD 1,079,410 thousand, EUR 85,750 thousand, CNY 4,007,892 thousand, INR 700,000 thousand and BRL 174,307 thousand.
- (2) As of December 31, 2014, the Group has entered into credit facilities agreements such as letters of credit with various banks for the Group's exports and imports totaling ₩55,000 million, USD 11,172,025 thousand and INR 1,300,000 thousand.
- (3) As of December 31, 2014, the Group has entered into credit facilities agreements such as pre-shipment credit and network loan with various banks amounting to ₩5,980,700 million, USD 319,657 thousand and CNY 1,320,000 thousand.
- (4) As of December 31, 2014, seven bank notes and one check have been provided to customers as collaterals for the Group's borrowings from the customers and construction contract performance guarantees.
- (5) As of December 31, 2014, the Group is contingently liable for loan guarantees of its foreign subsidiaries amounting to USD 1,793,950 thousand, EUR 110,350 thousand, CNY 4,561,152 thousand, INR 2,000,000 thousand and BRL 109,956 thousand and purchase loans of customers amounting to CNY 224,560 thousand of solidarity with local dealers. The Group has provided performance guarantees in relation to Jazan Refinery and Terminal Project Package 2 (contract amount: USD 286,806 thousand) which is being built by Hyundai Arabia Company LLC., Moho Nord Tension Leg Platform Project (contract amount: USD 789,882 thousand, EUR 45,296 thousand) and Moho Nord Floating Production Unit Project (contract amount: USD 1,220,610 thousand) which is being built by HHI France SAS and HHI Mauritius Ltd, one of the Group's subsidiaries. Furthermore, the Group has also entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd., one of the Group's subsidiaries, for the construction of eleven ships at a contract amount of USD 1,472,999 thousand.
- (6) In connection with the Group's contract performance guarantees, the Group has been provided with maximum guarantees amounting to ₩5,005,461 million and USD 36,957,834 thousand by various banking facilities, and regarding ships advance from customers, the Group has also been provided with maximum guarantees amounting to USD 28,210,114 by Export-Import Bank of Korea and others. Regarding this, the Group collateralizes its ships under construction and construction materials.
- (7) The Group entered into a consortium agreement on a natural resource development project with various organizations including Korea National Oil Corporation. Related other non-current assets related to resource development as of December 31, 2014 and 2013 are summarized as follows.

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Other non-current assets	₩ 63,307	63,307
Accumulated impairment	(63,307)	(63,307)
	<u>₩ -</u>	<u>-</u>

The Group obtained borrowings for a natural resource development project from the Korea National Oil Corporation (see Note 23).



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**44. Commitments and Contingencies, Continued**

- (8) As of December 31, 2014, the Group entered into a conditional commercial paper purchase guarantee contract guaranteed by SK Engineering & Construction Co., Ltd. and other companies amounting to ₩244,200 million.
- (9) As of December 31, 2014, the Group entered into guarantee contracts as follows.

(In millions of won)

	<b>Issuing entity</b>	<b>Agreement limits</b>	<b>Maturity</b>	<b>Business</b>
Underlying asset purchase commitment	NEOPINIX 1st CO., LTD.	₩ 42,000	2015-05-26	Yongin Sinbong district apartment construction project
	HIHALFMOON CO., LTD.	20,000	2015-07-24	Hwaseong Banwol-dong apartment construction project
	HIGH4SQUARE CO., LTD.	40,000	2016-10-11	Anyang and Pyeongchon apartment construction project
	Change Gimpo 2 <sup>ND</sup> CO.,LTD	30,000	2016-10-26	Gimpo and Poongmu apartment construction project
	IVYMOONJUNG 4 <sup>th</sup> CO.,LTD	10,000	2017-11-24	Munjeong-dong knowledge industry construction project
	IVYMOONJUNG 2 <sup>nd</sup> CO.,LTD	5,000	2017-11-24	Munjeong-dong knowledge industry construction project
	DIONE PLUS 1 CO., LTD.	58,700	2019-12-18	New Songdo City public housing construction project
	YJPrugio1 Co., LTD	42,000	2018-03-13	Yangju-si Okjeong district apartment construction project
	YJPrugio2 Co., LTD	20,000	2018-03-13	Yangju-si Okjeong district apartment construction project
	MSQUAREDONGCHEON 2ND CO., LTD.	15,900	2017-05-12	Yongin and Dongcheondong distribution business facilities construction project
	MOONJEONG2 FOURTH Co., Ltd.	12,700	2018-02-16	Munjeong-dong efficiency apartment and downtown construction project
	HIGUMDAN 1 <sup>st</sup> CO.,LTD	15,800	2017-02-24	Gumdan knowledge industry center construction project
	NINEGOLD 1 <sup>st</sup> CO.,LTD	30,000	2015-08-11	Guro knowledge business center Bridge Loan
	SUJISEONGBOK 1 <sup>st</sup> CO.,LTD	40,000	2018-04-30	Yongin and Seongbok residential complex construction project
	HIPROJECT 19 <sup>th</sup> CO.,LTD	37,800	2016-02-22	Gimpo Hakwoon 4 <sup>th</sup> industrial complex construction project
	HIPROJECT 20 <sup>th</sup> CO.,LTD	30,500	2016-02-22	Gimpo Hakwoon 4 <sup>th</sup> industrial complex construction project
	HIPROJECT 9 <sup>th</sup> CO.,LTD	25,000	2016-07-08	Yangju and Baeksuk district apartment construction project
	AAGONGSAM 5 <sup>th</sup> CO.,LTD	5,000	2017-11-20	Gimpo Hangang new city apartment construction project
	HIFIVE 6 <sup>th</sup> CO.,LTD	63,200	2017-10-02	Incheon BukHang behind the site mortgage loan
	HIFIVE 7 <sup>th</sup> CO.,LTD	27,100	2017-10-02	Incheon BukHang behind the site mortgage loan
	TRIUMPH1 3 <sup>th</sup> CO.,LTD	8,500	2015-09-11	Incheon-Midan city Facility A mortgage loan
	TRIUMPH2 2 <sup>nd</sup> CO.,LTD	5,900	2015-09-11	Incheon-Midan city Facility A mortgage loan
	TRIUMPH3 1 <sup>st</sup> CO.,LTD	8,500	2015-09-11	Incheon-Midan city Facility A mortgage loan

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**44. Commitments and Contingencies, Continued**

(9) As of December 31, 2014, the Group entered into the following agreements, such as loan purchase commitment, Continued:

(In millions of won)

	<b>Issuing entity</b>	<b>Agreement limits</b>	<b>Maturity</b>	<b>Business</b>
	HL PROJECT CO.,LTD.	10,700	2015-12-17	Lotte Construction Co.,Ltd, redeemable convertible preference shares
	HSBLUE 1 <sup>st</sup> CO.,LTD	20,320	2019-02-12	Subordinated debt of JB Woori Capital Co.,Ltd Subordinated debt of Lotte Non-Life Insurance Co., Ltd.
	JINIFOREVER 1ST CO., LTD.	40,640	2020-11-11	Future freight receivables of KOREAN AIR LINES CO.,LTD
	JINIFOREVER 2ND CO., LTD.	61,000	2018-02-14	
	HIPROJECT 10 <sup>th</sup> CO.,LTD	50,000	2016-02-08	Increasing cash loans of SBI Saving Bank.
	Win Win Plan First Co., Ltd	25,300	2016-08-04	Future accounts receivable of POSCO Plantec
	FLOATIONG 1 <sup>st</sup> CO.,LTD	15,460	2016-09-30	Floating island loan.
	Mirea Samsung the 1st Co.Ltd	13,000	2015-05-06	Goyang-Samsung knowledge center construction project
		<u>830,020</u>		
Unsecured loan commitment	Daewon urban development Co., Ltd.	39,800	2016-05-27	Moonjeongdong Office building construction project
	Cheongju Technopolis Co., Ltd.	20,000	2017-11-25	Cheongju Industrial Complex land development project
		<u>59,800</u>		
		<u>₩ 889,820</u>		

(10) HI GOLD OCEAN KMARIN NO.11 SHIP INVESTMENT COMPANY entered into a currency interest swap contract for ship building and chartering with Korea Exchange Bank. When HI GOLD OCEAN KMARIN NO.11 SHIP INVESTMENT COMPANY pays settlement amount for contract termination to Korea Exchange Bank, HI GOLD OCEAN KMARIN NO.11 SHIP INVESTMENT COMPANY is able to get a loan from banks. Additionally, the Group entered into a guarantee contract, which ensures it is able to borrow up to ₩40,000 million if the above loan is made.

(11) The Group entered into a stock purchase agreement with Busan Bank, which is an investment trust company of Hyundai Ship Private Fund 2, on December 28, 2012. The Group, pursuant to the agreement, sold stocks of HI Gold Ocean Kmarin No. 8 Ship Investment Company (7,788,229 shares of common stock) in January 2013. In connection with this transaction, the Group made a beneficiary contract with Hanwha Life Insurance Co., Ltd. on December 27, 2012, retaining the right of first refusal to purchase a beneficiary certificate of Hyundai Ship Private Fund 2, within an exercise period and amount of contracted price for sale. The Group also entered into a guarantee contract to ensure its ability to pay the difference between the contracted price for sale and the actual price, should Hanwha Life Insurance Co., Ltd. sells this beneficiary certificate to a third parties for less than the price.

(12) The Group entered into convertible loan agreements with ship owners in Liberia. As of December 31, 2014, the loan balance is USD 110,100 thousand.

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**45. Litigations**

- (1) The National Tax Service imposed additional income tax amounting to ₩107,600 million on March 27, 2006. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was experiencing a foreign currency exchange crisis in the late 1990s. The National Tax Service ruled this capital increase to be unfair financial support for the insolvent affiliate. The Group's appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Group filed administrative litigation. However, the Group lost the first trial on January 5, 2011 and appealed on January 25, 2011. In relation to the intermediate appeal, the Group partially won the litigation on February 15, 2013 for the settlement of the claim amounting to ₩52,700 million. However, the Group and the National Tax Service did not accept the Court's decision and filed appeals on February 27, 2013 and February 28, 2013, respectively.
- (2) In connection with orders for submarine pipeline and equipment installation construction from PTT Public Group Limited. ("PTT") on June 25, 2011, the Group engaged a subcontractor ("Britoil") that owned a tugboat. While the tugboat was moving a barge, for reasons unknown, an existing gas pipeline owned by PTT, was damaged resulting in a gas leak. At the request of the PTT, the Group worked on recovery and repair, which was completed around October 2011, and billed PTT for the cost of repairs. PTT in turn asked for compensations for damages related to the gas leak and loss of gas. The Group and PTT were unable to reach an agreement regarding the cause of accident, amount of damages, contractual limitations of liability, and distribution of insurance proceeds. On June 22, 2012, PTT filed a lawsuit in Thai court claiming damages amounting to USD 143 million against the Group, Britoil and PTT's insurer ("Dhipaya") as a co-defendants. The Group vigorously defended itself against that claim and filed a lawsuit requesting the cost of repairs against PTT on March 28, 2013 and requesting insurance against Dhipaya on February 11, 2013. The Group and PTT are undertaking mediation on the court's guidelines, signed a MOU for the agreement on the December 29, 2014. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.
- (3) On January 16, 2009, the Group entered into a longtime agreement to buy polysilicon with Woongjin Polysilicon Co.,Ltd. ("WPC"), and paid USD 91 million in advance. WPC halted facilities operation without any notice, and creditor of WPC declared them in default on October 17, 2012. The Group gave notice of the cancellation of a contract to WPC on January 25, 2013, and requested refund of prepaid payment to Seoul guarantee insurance company ("SGI") that guaranteed refund the repaid payment on February 7, 2013, but SGI did not accepted request for payment. The Group filed a lawsuit in Seoul Central District Court claiming guarantee insurance amounting to USD 91 million against SGI on April 5, 2013. The Group won the first trial on May 1, 2014 and SGI filed in appeal on May 20, 2014.
- (4) The Fair Trade Commission imposed fines on two LPG importers and four domestic oil refinery companies including the Group for alleged collusive price-fixing on LPG prices from January 1, 2003 to December 31, 2008. A fine of ₩26,314 million was imposed on the Group, which it paid on June 29, 2010 and recognized as expense in the same year. However, the Group appealed to the Fair Trade Commission decision to Seoul High Court in May 2010. After losing the second trial, the Group appealed to the Supreme Court, where the case is currently pending.

Additionally, 117,626 private taxi drivers and others jointly filed a lawsuit against four domestic oil refinery companies including the Group and two LPG importers claiming damages of ₩12,400 million based on the Fair Trade Commission's decision. The case is currently pending. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.

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**45. Litigation, Continued**

- (5) Hankook Shell Oil Co., Ltd. filed litigation in Seoul Central District Court in February 2012 against the Group, amounting to ₩14,800 million, for damages for contamination cleanup costs due to fuel spills at the Group's refinery on the site of the Hankook Shell Oil Co., Ltd.. The case is currently pending. The Group did not recognize provision related to lawsuit on the consolidated financial statements because the amount of provision cannot be reliably estimated as of December 31, 2014.
- (6) In February 2007, the Fair Trade Commission imposed a fine amounting to ₩9,300 million on the four domestic oil refinery companies, including the Group, for alleged collusive price-fixing. The Group paid the fine on July 16, 2007 and recorded the amount as profit or loss in the same year. With regard to the imposition, the Group filed an official appeal to the Fair Trade Commission in May 2007, but the Commission announced the rejection of the appeal in July 2007. The Group lost the second trial and the case is currently pending in the Supreme Court. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.
- (7) The Seoul Customs concluded that a part of a customs refund of crude oil imports is unjust. They imposed customs on the Group amount to ₩41,600 million in 2013, which was recognized as expenses in the same year. The Group filed litigation in Tax Tribunal in December 2013, for canceling the imposed customs. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.
- (8) Korea National Oil Corporation ("KNOC") imposed a fine amounting to ₩9,700 million in regards to the refund of the excessive tax on oil imports. The Group filed litigation seeking the revocation of the administrative fine order to by KNOC. Suwon District Court ruled in favor of the Group in 2013, and KNOC appealed. Additionally, the Group charged refund amounting to ₩ 3,100 million to KNOC, but it has been denied. Regarding to this, the Group filled litigation in Suwon District Court in January, 2014. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.
- (9) The Defense Acquisition Program Administration ("DAPA") offset to payment of oil amounting to ₩9,300 million on the Group, for alleged collusive bidding for the supply of military fuel. With regard to the redemption, the Group filed a lawsuit against DAPA for non-payment of oil amounting to ₩9,300 million in December 2012. The Group won the first trial on January 10, 2014 and the DAPA appealed. The case is currently pending in the Seoul Central District Court. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated.
- (10) The Company and Hyundai Mipo Dockyard Co., Ltd. partially lost the first trial of ordinary wage lawsuit (amounting to ₩600 million against Hyundai Heavy Industry Co., Ltd. and ₩100 million against Hyundai Mipo Dockyard Co., Ltd.) on February 12, 2015. The court ruled that the 800% regular bonus should be considered ordinary wages, and the ruling would apply retroactively for three years (estimated additional payment: Hyundai Heavy Industry ₩ 629,500 million, Hyundai Mipo dockyard ₩86,800 million). The Company and Hyundai Mipo Dockyard Co., Ltd. appealed on March 2, 2015 and the case is currently pending. The Hyundai Samho Heavy Industries Co., Ltd. was also named as a defended for ordinary wage lawsuit with a claim of ₩166,400 million and first trial litigation is currently pending. The Group did not recognize provision related to lawsuit on the consolidated financial statements because the Group believes it does not have a present obligation in connection with this matter as of December 31, 2014.

In addition to the cases mentioned above, the Group is currently a defendant in 68 lawsuits involving claims totaling: ₩136,900 million. Currently, the impact on the Group's consolidated financial statements, if any, cannot be reliably estimated. However, management of the Group believes that the ultimate outcomes will not have a significant impact on the Group's operations and financial position.

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**46. Related Parties**

- (1) Significant transactions for the years ended December 31, 2014 and 2013 between the Company and associates or joint ventures are as follows:

(In millions of won)

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

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

(In millions of won)

	<b>2013</b>			
	<b>Sales and other</b>		<b>Purchases and other</b>	
	<b>Sales</b>	<b>Dividends Income</b>	<b>Purchase of Raw materials</b>	<b>Others purchase</b>
<b>Subsidiaries:</b>				
Hyundai Corporation	₩ 924,901	2,496	7,733	5,099
Wärtsilä-Hyundai Engine Company Ltd.	3,158	6,611	110,923	-
Hyundai Cosmo Petrochemical Co., Ltd.	43,307	-	-	-
Others	8,951	200	-	36
	<b>₩ 980,317</b>	<b>9,307</b>	<b>118,656</b>	<b>5,135</b>

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

- (2) Outstanding balances as of December 31, 2014 and 2013 between the Company and associates or joint ventures are as follows:

(In millions of won)

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

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

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46. Related Parties, Continued

- (2) Outstanding balances as of December 31, 2014 and 2013 between the Company and associates or joint ventures are as follows, continued

(In millions of won)

	2013			
	Trade and other receivables		Trade and other payables	
	Trade Receivable	Other receivables	Trade Payables	other payables
<b>Subsidiaries:</b>				
Hyundai Corporation	₩ 223,529	143	35	35,637
Wärtsilä-Hyundai Engine Company Ltd.	1,024	35,063	-	-
Hyundai Cosmo Petrochemical Co., Ltd.	163	-	-	-
Others	1,473	1,320	-	10,225
	₩ 226,189	36,526	35	45,862

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

- (3) Significant transactions for the years ended December 31, 2014 and 2013 between subsidiaries and associates or joint ventures are as follows:

(In millions of won)

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

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

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**46. Related Parties, Continued**

(3) Significant transactions for the years ended December 31, 2014 and 2013 between subsidiaries and associates or joint ventures are as follows, continued:

(In millions of won)

Subsidiaries	Associates and joint ventures	Sales and other	2013	
			Purchases and other	
			Raw materials purchase	Others purchase
Hyundai Samho Heavy Industries Co., Ltd.	Hyundai Corporation	₩ 3	558	-
	Wärtsilä-Hyundai Engine Company Ltd.	220	53,109	-
Hyundai Mipo Dockyard Co., Ltd.	Hyundai Corporation	-	-	1,380
Hyundai Oilbank Co., Ltd.	Hyundai Merchant Marine Co., Ltd.	20,370	-	78,499
	Hyundai Corporation	710,033	-	198
	Wärtsilä-Hyundai Engine Company Ltd.	2,251	-	-
	KAM Corporation	3	-	-
	Hyundai Cosmo Petrochemical Co., Ltd.	1,950,851	1,204,638	-
Hyundai Energy & Resources Co., Ltd.	Hyundai Corporation	1,447	-	-
Hyundai Venture Investment Corporation	KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	301	-	-
	KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	736	-	-
Hyundai Oilbank (Shanghai) Co., Ltd.	Hyundai Cosmo Petrochemical Co., Ltd.	-	281,853	-
Hyundai Heavy Industries Co. Bulgaria	Hyundai Corporation	1,158	-	-
		₩ 2,687,373	1,540,158	80,077

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

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**46. Related Parties, Continued**

- (4) Outstanding balances as of December 31, 2014 and 2013 between subsidiaries and associates or joint ventures are as follows:

(In millions of won)

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

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



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**46. Related Parties, Continued**

- (4) Outstanding balances as of December 31, 2014 and 2013 between subsidiaries and associates or joint ventures are as follows, continued:

(In millions of won)

Subsidiaries	Associates and joint ventures	2013			
		Trade and other receivables		Trade and other payables	
		Trade Receivable	Other receivables	Trade Payables	other payables
Hyundai Samho Heavy Industries Co., Ltd.	Hyundai Corporation	₩ 1	117	-	222
	Wärtsilä-Hyundai Engine Company Ltd.	19	30,241	-	-
Hyundai Mipo Dockyard Co., Ltd.	Hyundai Corporation	-	23	-	127
Hyundai Oilbank Co., Ltd.	Hyundai Merchant Marine Co., Ltd.	11,855	-	6,159	-
	Hyundai Corporation	23,756	-	-	-
	Wärtsilä-Hyundai Engine Company Ltd.	98	-	-	-
	Hyundai Cosmo Petrochemical Co., Ltd.	158,290	29	130,208	-
Hyundai Venture Investment Corporation	KoFC-HVIC Pioneer Champ 2010-11 Venture Fund	-	117	-	-
	KoFC-HVIC Pioneer Champ 2011-7 Venture Fund	-	184	-	-
Hyundai Oilbank (Shanghai) Co., Ltd.	Hyundai Cosmo Petrochemical Co., Ltd.	-	-	37,432	-
Hyundai Heavy Industries Co. Bulgaria	Hyundai Corporation	-	-	373	-
		₩ 194,019	30,711	174,172	349

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

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**46. Related Parties, Continued**

- (5) Details of guarantees between the Company, subsidiaries and associates and joint ventures as of December 31, 2014 are as follows:

*(In thousands of foreign currency)*

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

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

*(In thousands of foreign currency)*

<u>Related parties</u>	<u>Pledged asset</u>	<u>Book value</u>	<u>Amount</u>	<u>Provider</u>
Pyeongchang wind power Co.Ltd	Investments in associates – Pyeongchang wind power Co. Ltd	₩ 3,397	79,200	Woori bank and others

- (7) Compensation for key management of the Group for the years ended December 31, 2014 and 2013 is ₩21,868 million and ₩24,196 million, respectively. Key management is defined as directors and internal auditors who have important roles and responsibilities involving the planning, operation and control of the Group.

**47. Share-based Payment**

In accordance with 2010 wage bargaining agreements, the Group contributed a portion of its investments in Hyundai Mipo Dockyard Co., Ltd. common stock into a trust securities account in order to support the employee stock ownership plan. The Group have no trust securities because the trust agreement is terminated during August, 2014.

The above trust securities transaction is classified as cash-settled share-based payment arrangements, which compensates employee service with cash or other assets based on the value of the Group's stocks and other equity instruments. It is applied to employees, who unconditionally become entitled to stock appreciation rights as soon as it is granted. Accordingly, the amount that covered under the wage bargaining agreements is recognized as salary expense, and additional costs arising from stock appreciation right are recognized as compensation expenses associated with stock options.

*(In millions of won, except share data)*

	<u>Second trust securities</u>	
	<u>Number of stocks</u>	<u>Accrued expenses</u>
Beginning balance	170,053 ₩	30,511
Expiration of options due to exercising the rights and others	(170,053)	(20,435)
Compensation expenses associated with stock option	-	(10,076)
Ending balance	<u>- ₩</u>	<u>-</u>

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**48. Shares in Non-consolidated Structured Companies**

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

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

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

(In millions of won)

	<b>Asset-based security</b>	<b>Structured finance</b>	<b>Investment fund and trust</b>	<b>Total</b>
Asset				
Security	₩ -	250	165,502	165,752
Investment in associates	-	-	14,007	14,007
Total	-	250	179,509	179,759
Off balance account				
Purchase agreement	1,134,020	-	40,000	1,174,020
Maximum amount of exposure	1,134,020	250	219,509	1,353,779
A method to determine the maximum exposure	Purchase agreement, Lending firm commitment	Book value	Book value and payment guarantee	

**49. Subsequent Events**

The Company merged the Marine Division and Plant Division in January 2015 and introduced a voluntary retirement plan for employees. This retirement plan is in progress, and it is not possible to reliably estimate the effect on the financial statements.