

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Separate 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 separate financial statements of Hyundai Heavy Industries, Inc. (the "Company"), which comprise the separate statements of financial position as of December 31, 2014 and 2013, the separate statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matter

The accompanying separate statement of financial position of the Company as of December 31, 2013, and the related separate 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.

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

KPMG Samjong Accounting Corp.

Seoul, Korea
March 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 separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

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

(In thousands of won)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Assets			
Cash and cash equivalents	4,38,39	₩ 1,407,943,949	730,673,768
Short-term financial assets	6,24,38,39	149,731,816	155,426,784
Trade and other receivables	8,30,38,39,42	2,965,451,971	3,646,761,996
Due from customers for contract work	8,30,38,39	4,706,154,739	5,129,773,456
Inventories	9	3,111,765,221	2,584,221,399
Derivative assets	24,38,39	101,394,184	352,985,099
Firm commitment assets	24	59,425,040	5,205,454
Other current assets	10	2,276,862,547	2,210,689,649
Total current assets		<u>14,778,729,467</u>	<u>14,815,737,605</u>
Investments in subsidiaries and associates and joint ventures	11,12,13,42	6,315,714,090	6,777,957,105
Long-term financial assets	6,7,15,38,39	1,052,224,824	1,145,948,843
Long-term trade and other receivables	8,30,38,39,42	294,797,046	292,512,483
Investment property	16	410,791,189	439,997,862
Property, plant and equipment	17	8,255,085,223	8,062,509,717
Intangible assets	18	365,622,486	395,809,501
Derivative assets	24,38,39	16,383,248	200,579,565
Firm commitment assets	24	85,793,200	673,467
Deferred tax asset	35	424,218,092	-
Total non-current assets		<u>17,220,629,398</u>	<u>17,315,988,543</u>
Total assets		<u>₩ 31,999,358,865</u>	<u>32,131,726,148</u>

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
 Separate 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>
Liabilities			
Short-term financial liabilities	19,21,38,39,40	₩ 3,643,119,149	5,363,664,718
Trade and other payables	20,38,39,42	3,686,939,733	2,701,363,787
Advances from customers		756,823,764	772,614,459
Due to customers for contract work	30	5,257,296,786	4,365,624,000
Derivative liabilities	24,38,39	145,513,550	65,584,053
Firm commitment liabilities	24	63,740,551	202,711,015
Income tax payable		665,762	51,313,016
Total current liabilities		<u>13,554,099,295</u>	<u>13,522,875,048</u>
Long-term financial liabilities	19,21,38,39,40	3,657,384,068	2,034,144,291
Long-term trade and other payables	20,38,39,42	11,581,151	11,557,764
Liabilities for defined benefit plans	22	442,146,969	120,454,843
Long-term provisions	23	460,316,383	381,386,859
Derivative liabilities	24,38,39	90,070,108	26,847,146
Firm commitment liabilities	24	10,556,077	187,152,888
Deferred tax liabilities	35	-	266,995,798
Total non-current liabilities		<u>4,672,054,756</u>	<u>3,028,539,589</u>
Total liabilities		<u>18,226,154,051</u>	<u>16,551,414,637</u>
Equity			
Common stock of ₩5,000 par value	25	380,000,000	380,000,000
Authorized - 160,000,000 shares			
Issued and outstanding -			
76,000,000 shares in 2014 and 2013			
Capital surplus	25	1,044,516,633	1,044,516,633
Hybrid bonds	26	428,589,000	-
Capital adjustments	27	(1,400,454,947)	(1,400,454,947)
Accumulated other comprehensive income	24,28	306,094,650	552,205,370
Retained earnings	29	13,014,459,478	15,004,044,455
Total equity		<u>13,773,204,814</u>	<u>15,580,311,511</u>
Total liabilities and equity		<u>₩ 31,999,358,865</u>	<u>32,131,726,148</u>

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
 Separate 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	24,30,42	₩ 23,463,461,064	24,282,737,183
Cost of sales	9,18,24,32,42	<u>(24,053,489,027)</u>	<u>(22,176,255,337)</u>
Gross profit (loss)		(590,027,963)	2,106,481,846
Selling, general and administrative expenses	18,31,32,38	<u>(1,333,222,550)</u>	<u>(1,371,686,848)</u>
Operating profit (loss)		(1,923,250,513)	734,794,998
Finance income	24,33,38	827,640,101	1,126,586,428
Finance costs	24,33,38	(1,242,257,519)	(766,893,914)
Other non-operating income	24,34	425,642,895	266,037,091
Other non-operating expenses	24,34	<u>(424,926,390)</u>	<u>(866,756,184)</u>
Profit (loss) before income taxes		(2,337,151,426)	493,768,419
Income tax expense (income)	35	<u>582,474,217</u>	<u>(42,100,905)</u>
Profit (loss) for the year		<u>₩ (1,754,677,209)</u>	<u>451,667,514</u>
Other comprehensive income (loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Change in fair value of available-for-sale financial assets		₩ (216,563,440)	61,601,033
Effective portion of changes in fair value of cash flow hedges		<u>(29,547,280)</u>	<u>(7,999,115)</u>
Total items that are or may be reclassified subsequently to profit or loss		<u>(246,110,720)</u>	<u>53,601,918</u>
Items that will not be reclassified to profit or loss:			
Defined benefit plan actuarial gains (losses)		<u>(111,623,421)</u>	<u>38,327,676</u>
Total items that will not be reclassified to profit or loss		<u>(111,623,421)</u>	<u>38,327,676</u>
Other comprehensive income (loss) for the year, net of income tax	22,24,28,38	<u>(357,734,141)</u>	<u>91,929,594</u>
Total comprehensive income (loss) for the year		<u>₩ (2,112,411,350)</u>	<u>543,597,108</u>
Earnings (losses) per share	36		
Basic and diluted earnings (loss) per share (in won)		<u>₩ (28,641)</u>	<u>7,370</u>

See accompanying notes to the separate financial statements.

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

(In thousands of won)

		Common stock	Capital surplus	Hybrid bonds	Capital adjustments	Gain and loss on valuation of available-for-sale financial assets	Gain and loss on valuation of derivatives	Retained earnings	Total equity
Balance at January 1, 2013	₩	380,000,000	1,044,516,633	-	(1,400,454,947)	520,048,369	(21,444,917)	14,667,270,365	15,189,935,503
Total comprehensive income (loss) for the year									
Profit for the year		-	-	-	-	-	-	451,667,514	451,667,514
Changes in gain and loss on valuation of available-for-sale financial assets, net of tax		-	-	-	-	61,601,033	-	-	61,601,033
Changes in fair value of cash flow hedges, net of tax		-	-	-	-	-	(7,999,115)	-	(7,999,115)
Defined benefit plan actuarial losses, net of tax		-	-	-	-	-	-	38,327,676	38,327,676
Transactions with owners of the Company, recognized directly in equity									
Dividends		-	-	-	-	-	-	(153,221,100)	(153,221,100)
Balance at December 31, 2013	₩	<u>380,000,000</u>	<u>1,044,516,633</u>	<u>-</u>	<u>(1,400,454,947)</u>	<u>581,649,402</u>	<u>(29,444,032)</u>	<u>15,004,044,455</u>	<u>15,580,311,511</u>
Balance at January 1, 2014	₩	380,000,000	1,044,516,633	-	(1,400,454,947)	581,649,402	(29,444,032)	15,004,044,455	15,580,311,511
Total comprehensive income for the year									
Loss for the year		-	-	-	-	-	-	(1,754,677,209)	(1,754,677,209)
Changes in gain and loss on valuation of available-for-sale financial assets, net of tax		-	-	-	-	(216,563,440)	-	-	(216,563,440)
Changes in fair value of cash flow hedges, net of tax		-	-	-	-	-	(29,547,280)	-	(29,547,280)
Defined benefit plan actuarial losses, net of tax		-	-	-	-	-	-	(111,623,421)	(111,623,421)
Transactions with owners of the Company, recognized directly in equity									
Dividends		-	-	-	-	-	-	(122,576,880)	(122,576,880)
Issue of hybrid bonds		-	-	428,589,000	-	-	-	-	428,589,000
Interest for hybrid bonds		-	-	-	-	-	-	(707,467)	(707,467)
Balance at December 31, 2014	₩	<u>380,000,000</u>	<u>1,044,516,633</u>	<u>428,589,000</u>	<u>(1,400,454,947)</u>	<u>365,085,962</u>	<u>(58,991,312)</u>	<u>13,014,459,478</u>	<u>13,773,204,814</u>

See accompanying notes to the separate financial statements.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
 Separate 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>
Cash flows from operating activities			
Profit (loss) for the year		₩ (1,754,677,209)	451,667,514
Adjustments		3,150,554,707	193,176,263
Cash generated from operations	37	1,395,877,498	644,843,777
Interest received		41,524,469	52,516,341
Interest paid		(185,979,594)	(190,313,949)
Dividends received		89,440,674	37,415,696
Income taxes paid		(68,867,741)	(496,472,306)
Net cash provided by operating activities		<u>1,271,995,306</u>	<u>47,989,559</u>
Cash flows from investing activities			
Proceeds from sale of short-term financial assets		161,855,224	130,500,000
Proceeds from collection of other receivables		-	4,300,000
Proceeds from sale of investments in subsidiaries, associates and joint ventures		105,878,509	18,847,943
Proceeds from sale of long-term financial assets		17,670,003	1,724,821
Proceeds from collection of long-term other receivables		5,287,635	5,913,002
Proceeds from sale of property, plant and equipment		3,011,854	16,526,207
Proceeds from sale of intangible assets		3,894,285	2,620,909
Proceeds from sales of non-current assets held for sale		-	88,530,394
Proceeds from other non-current assets		-	2,794
Acquisition of short-term financial assets		(161,855,224)	(149,700,000)
Acquisition of other receivables		-	(2,300,000)
Acquisition of investments in subsidiaries, associates and joint ventures		(134,229,857)	(91,924,421)
Acquisition of long-term financial assets		(959,220)	(5,325,317)
Acquisition of long-term other receivables		(3,826,020)	(2,956,508)
Acquisition of property, plant and equipment		(641,461,840)	(529,638,630)
Acquisition of intangible assets		(58,727,926)	(86,086,982)
Acquisition of other non-current assets		-	(10,905,411)
Net cash used in investing activities		<u>(703,462,577)</u>	<u>(609,871,199)</u>
Cash flows from financing activities			
Proceeds from short-term financial liabilities		8,452,148,034	10,787,673,723
Proceeds from long-term financial liabilities		2,768,632,800	1,655,179,220
Repayment of short-term financial liabilities		(11,419,060,981)	(10,945,994,963)
Repayment of long-term financial liabilities		(1,469)	(572,304,000)
Issue of hybrid bonds		428,589,000	-
Dividends paid		(122,576,880)	(153,221,100)
Net cash provided by financing activities		<u>107,730,504</u>	<u>771,332,880</u>
Effects of exchange rate changes on cash and cash equivalents		1,006,948	(1,694,326)
Net increase in cash and cash equivalents		<u>677,270,181</u>	<u>207,756,914</u>
Cash and cash equivalents at January 1		<u>730,673,768</u>	<u>522,916,854</u>
Cash and cash equivalents at December 31		<u>₩ 1,407,943,949</u>	<u>730,673,768</u>

See accompanying notes to the separate financial statements.

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

1. Reporting Entity

Hyundai Heavy Industries Co., Ltd. (the "Company") was incorporated in 1973, under the Commercial Code of the Republic of Korea, and is engaged in the manufacture and sale of ships, offshore structures, plants, engines and other products.

On 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. Basis of Preparation

(1) Statement of compliance

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

These financial statements are separate financial statements in accordance with K-IFRS No. 1027, 'Separate Financial Statements' presented by a parent, an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost.

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

(2) Basis of measurement

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

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

(3) Functional and presentation currency

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

(4) Use of estimates and judgments

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

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

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

2. Basis of Preparation, Continued

(4) Use of estimates and judgments, continued

(i) Judgments

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

- Note 13, 14 – Classification of joint arrangement
- 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 11, 12, 15, 17 and 18 – Impairment test: key assumptions underlying recoverable amounts, including the recoverability of investments in subsidiaries, investments in associates, available-for-sale financial assets, property and intangible assets.
- Note 22 – Measurement of defined benefit obligations: key actual assumptions
- Notes 23, 40 and 41 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources
- Note 30 – Revenue recognition in proportion to the stage of completion
- Note 35 – Recognition of deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used

(iii) Measurement of fair value

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

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

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

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

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

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

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

2. Basis of Preparation, Continued

(4) Use of estimates and judgments, continued

(iii) Measurement of fair value, continued

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

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

3. Changes in accounting policies

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

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2014.

- Offsetting Financial Assets and Financial Liabilities (Amendments to K-IFRS 1032)
- Investment Entities (Amendments to K-IFRS 1110 'Consolidated Financial Statements', K-IFRS 1112 'Disclosure of Interests in Other Entities' and K-IFRS 1027 'Separate Financial Statements')
- 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 Company 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 Company applied the amendments retrospectively. The change in accounting policy had no impact on the separate financial statements.

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

3. Changes in accounting policies, Continued

(ii) Investment Entities (Amendments to K-IFRS No.1110, K-IFRS 1112 and K-IFRS 1027)

The Company has adopted amendments to K-IFRS No.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.

The Company has evaluated and concluded that the Company is an investment entity, as of January 1, 2014. As a result, the Company applied the amendments retrospectively. The change in accounting policy had no impact on the separate financial statements.

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

The Company 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. 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.

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

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

The Company 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 separate financial statements.

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

4. Significant Accounting Policies

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

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

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027, 'Separate Financial Statements'. The Company applied the cost method to investments in subsidiaries and associates in accordance with K-IFRS No. 1027. Dividends from a subsidiary or associate are recognized in profit or loss when the right to receive the dividend is established.

(2) Cash and cash equivalents

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

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

<i>(In millions of won)</i>	2014	2013
Cash	₩ 300	337
Current deposit	6,940	19,500
Ordinary deposit	7,153	9,451
Others	1,393,551	701,386
	₩ 1,407,944	730,674

(3) Inventories

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

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

(4) Non-derivative financial assets

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

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

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

(4) Non-derivative financial assets, continued

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to the Separate Financial Statements
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4. Significant Accounting Policies, Continued

(5) Derivative financial instruments, including hedge accounting

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

(i) Hedge accounting

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

(ii) Separable embedded derivatives

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

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

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

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4. Significant Accounting Policies, Continued

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

(iii) Other derivative financial instruments

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

(6) Impairment of financial assets

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

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.

Below example wording may be included:

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a Company of financial assets.

The entity should describe the accounting policy to determine "objective evidence of impairment" in accordance with K-IFRS 1039.59 and 61

(i) Financial assets measured at amortized cost

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

(ii) Financial assets carried at cost

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

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

4. Significant Accounting Policies, Continued

(6) Impairment of financial assets, continued

(iii) Available-for-sale financial assets

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

(7) Property, plant and equipment

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

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

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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed. A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

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

The estimated useful lives of the Company's assets are as follows:

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

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to the Separate Financial Statements
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4. Significant Accounting Policies, Continued

(8) Intangible assets

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

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

	Useful lives (years)
Capitalized development costs	5
Other intangible assets	20, 40
Memberships	Indefinite

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

(i) Research and development

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

(ii) Subsequent expenditures

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

(9) Government grants

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

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

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

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

4. Significant Accounting Policies, Continued

(10) Investment property

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

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

Investment property is depreciated on a straight-line basis over the following estimated useful lives:

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

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

(11) Impairment of non-financial assets

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

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

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

Any impairment identified at the CGU level will reduce the carrying amount of the assets in the CGU on a pro rata basis. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

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

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

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

(13) Borrowing costs

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

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period. In addition, the Company capitalized borrowing costs amounting to ₩108,111 million and ₩77,095 million, applying capitalization rate of 2.66% and 2.77% for the years ended December 31, 2014 and 2013, respectively.

(14) Non-derivative financial liabilities

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

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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For the years ended December 31, 2014 and 2013

4. Significant Accounting Policies, Continued

(14) Non-derivative financial liabilities, continued

(ii) Other financial liabilities, Continued

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

(15) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

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

(iii) Retirement benefits: Defined benefit plans

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

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

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

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

(iv) Termination benefits

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to the Separate Financial Statements
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4. Significant Accounting Policies, Continued

(16) Provisions

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

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

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

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

(i) Provision for construction warranty

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

(ii) Provision for product warranty

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

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

(17) Foreign currencies

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

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

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

(18) Equity capital

(i) Equity instruments

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

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

(ii) Hybrid bonds

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

(19) Revenue

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

(i) Goods sold

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

(ii) Services

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

(iii) Construction contracts

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

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

(iv) Rental income

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

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

(20) Finance income and finance costs

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

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

(21) Income taxes

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to the Separate Financial Statements
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4. Significant Accounting Policies, Continued

(21) Income taxes, continued

(ii) Deferred tax, Continued

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

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

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

(22) Earnings per share

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

(23) Operating segments

The Company discloses information related to its operating segments on its separate financial statements in accordance with K-IFRS No. 1108, 'Operating Segments'.

(24) New standards and interpretations not yet adopted

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

(i) 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.

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

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

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5. Risk Management

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

- Credit risk
- Liquidity risk
- Market risk

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

(1) Financial risk management

1) Risk management framework

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

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

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

2) Credit risk

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

(i) Trade and other receivables

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

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

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

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5. Risk Management, Continued

(1) Financial risk management, continued

2) Credit risk, continued

(ii) Investments

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

(iii) Guarantees

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

3) Liquidity risk

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

The Company has historically been able to satisfy its cash requirements from cash flow from operations and debt and equity financing. To the extent that the Company does not generate sufficient cash flow from operations to meet its capital requirements, the Company may rely on other financing activities, such as external long-term borrowings and offerings of debt securities, equity-linked and other debt securities. In addition, the Company has entered into credit line agreements with financial institutions amounting to ₩10,623,621 million and USD 30,969,364 thousand as of December 31, 2014.

4) Market risk

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

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

(i) Currency risk

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

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

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5. Risk Management, Continued

(1) Financial risk management, continued

(ii) Other market price risk

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

The effect of 1% changes in price of marketable available-for-sale securities on the total comprehensive income for the years ended December 31, 2014 and December 31, 2013 is 9,882 million and 10,665 million.

(2) Capital management

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

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

<i>(In millions of won, except equity ratio)</i>	2014	2013
Total liabilities	₩ 18,226,154	16,551,415
Total equity	13,773,205	15,580,312
Cash and deposits (*1)	1,557,677	880,407
Borrowings (*2)	7,300,503	7,397,809
Liability to equity ratio	132.33%	106.23%
Net borrowing to equity ratio (*3)	41.70%	41.83%

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

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

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

The interest coverage ratio and basis of calculation at the end of the reporting period are as follows.

<i>(In millions of won, except equity ratio)</i>	2014	2013
Operating profit(loss)	₩ (1,923,251)	734,795
Interest	85,746	115,916
Interest coverage ratio	(*)	6

(*) Since Operating loss occurred for the year ended December 31, 2014, Interest coverage ratio has not been calculated.

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6. Short-term and Long-term Financial Assets

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

(In millions of won)

	2014		2013	
	Current	Non-current	Current	Non-current
Financial instruments	₩ 149,700	33	149,700	33
Financial assets at fair value through profit or loss	32	-	5,727	-
Available-for-sale financial assets	-	1,052,192	-	1,145,916
	₩ 149,732	1,052,225	155,427	1,145,949

7. Restricted Financial Instruments

Financial instruments, 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
Long-term financial instruments	Deposits in won Korea Exchange Bank and others	₩ 33	33	Guarantee deposits for checking accounts

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
Trade receivables:				
Trade receivables	₩ 3,135,452	339,992	3,608,539	550,681
Allowance for doubtful accounts	(556,736)	(53,598)	(276,659)	(267,893)
	2,578,716	286,394	3,331,880	282,788
Other receivables:				
Other accounts receivable	570,338	-	519,539	-
Allowance for doubtful accounts	(190,306)	-	(215,778)	-
Accrued income	5,742	-	9,708	-
Loans	-	253	243	-
Guarantee deposits	962	8,150	1,170	9,724
	386,736	8,403	314,882	9,724
	₩ 2,965,452	294,797	3,646,762	292,512

(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	Non-current	Current	Non-current
Due from customers for contract work	₩ 4,706,501	-	5,131,319	-
Allowance for doubtful accounts	(346)	-	(1,546)	-
	₩ 4,706,155	-	5,129,773	-

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9. 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	₩ 132,808	(4,922)	127,886	85,414	(6,110)	79,304
Finished goods	177,097	(11,982)	165,115	233,105	(14,513)	218,592
Work-in-progress	1,263,052	(104,595)	1,158,457	1,121,896	(100,726)	1,021,170
Raw materials	910,867	(3,322)	907,545	823,647	(3,307)	820,340
Supplies	21,208	-	21,208	22,210	-	22,210
Materials-in-transit	731,554	-	731,554	422,605	-	422,605
	₩ 3,236,586	(124,821)	3,111,765	2,708,877	(124,656)	2,584,221

The reversal of write-down of inventories to net realizable value amounting to ₩165 million and ₩3,735 million are included in cost of sales for the years ended December 31, 2014 and 2013, respectively.

10. Other Current Assets

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

(In millions of won)

	2014	2013
Advance payments	₩ 2,015,224	1,877,319
Prepaid expenses	261,639	333,371
Others	7,117	-
Impairment	(7,117)	-
	₩ 2,276,863	2,210,690

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11. Investments in Subsidiaries

Investments in subsidiaries as of December 31, 2014 and 2013 are summarized as follows:

(In millions of won, except percentage of ownership)

Subsidiaries	Location	Particulars	2014		2013	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Hyundai Samho Heavy Industries Co., Ltd.	Korea	Shipbuilding	94.92	₩ 1,817,690	94.92	₩ 1,817,690
Hyundai Oilbank Co., Ltd.	Korea	Manufacturing of petroleum products	91.13	2,954,745	91.13	2,954,745
Hyundai Heavy Material Service	Korea	Sale and manufacture of machinery equipment for shipbuilding	100.00	122,136	100.00	122,136
KOMAS Corporation	Korea	Shipping	100.00	116,635	100.00	116,635
Hyundai Energy & Resources Co., Ltd.(*1)	Korea	Services for crude oil and natural gas mining	40.00	20,000	40.00	20,000
Ulsan Hyundai Football Club Co., Ltd.	Korea	Football club	100.00	4,913	100.00	4,913
Hotel Hyundai Co., Ltd.	Korea	Hotel operation	100.00	2,807	100.00	2,807
Hyundai Finance Corporation	Korea	Granting of credit	67.49	90,726	67.49	90,726
LS Leading Solution Private Security Investment Trust 22 (Equity)	Korea	Other financial business	-	-	100.00	80,155
LS Leading Solution Private Security Investment Trust 35 (Equity)	Korea	Other financial business	-	-	100.00	15,759
Eastspring Private Global Asset allocation & Mining & Gold Fund of Funds Investment Trust A-1	Korea	Other financial business	-	-	100.00	12,709
HHI China Investment Co., Ltd.	China	Holding company	100.00	286,425	100.00	286,425
Hyundai Financial Leasing Co., Ltd (*1).	China	Financial and operating leases	41.26	67,403	41.26	67,403
Hyundai (Shandong) Heavy Industries Machinery Co., Ltd.	China	Sale and manufacture of wheel loaders	100.00	48,810	100.00	48,810
Hyundai Vinashin Shipyard(*1,2)	Vietnam	Ship repair	10.00	9,484	10.00	20,149
Hyundai Construction Equipment India Pvt. Ltd.	India	Sale and manufacture of machinery equipment for construction	100.00	53,741	100.00	53,741
Hyundai Transformers And Engineering India PVT, Ltd.	India	Sale and manufacture of transformers	100.00	227	100.00	227
Hyundai Construction Equipment Americas, Inc.	America	Sale of machinery equipment for construction	100.00	-	100.00	-
Hyundai Power Transformers USA, INC.	America	Sale and manufacture of industrial electric equipment	100.00	86,693	100.00	61,448
Hyundai Ideal Electric Co.	America	Sale and manufacture of industrial electric equipment	100.00	25,494	100.00	25,494
PHECO Inc.	America	Design services for offshore facilities	100.00	237	100.00	237
HHI Battery CO., Ltd.(*2)	Canada	Manufacturing	100.00	6,410	100.00	20,256
Hyundai Heavy Industries Brasil - Real Estate Developments	Brazil	Real estate development	97.09	30,443	100.00	31,355
Hyundai Heavy Industries Brasil (*2)	Brazil	Manufacture, trade and repair of heavy equipment	97.09	122,485	100.00	69,204
Hyundai Heavy Industries Miraflores Power Plant Inc.	Panama	Manufacturing	100.00	-	100.00	-
Vladivostok Business Center	Russia	Hotel operation	100.00	-	100.00	-
Hyundai Khorol Agro Ltd.	Russia	Agriculture	95.24	16,105	95.24	16,105
Hyundai Mikhailovka Agro	Russia	Agriculture	100.00	17,255	100.00	17,255
Hyundai Electrosystems Co., Ltd.(*2)	Russia	Manufacture of high-voltage circuit breakers	100.00	33,425	100.00	44,403
Hyundai Heavy Industries Europe N.V..	Belgium	Sale of machinery equipment for construction	100.00	10,322	100.00	10,322
Hyundai Heavy Industries Co. Bulgaria	Bulgaria	Sale and manufacture of transformers	99.09	46,768	99.09	46,768

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11. Investments in Subsidiaries, Continued

Investments in subsidiaries as of December 31, 2014 and 2013 are summarized as follows, continued:

(In millions of won, except percentage of ownership)

Subsidiaries	Location	Particulars	2014		2013	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Hyundai Technologies Center Hungary Kft.	Hungary	Research and development of technology	100.00	26	100.00	26
Hyundai Heavy Industries France SAS	France	Manufacturing	100.00	52	100.00	52
Jahnel-Kestermann Getriebewerke GmbH (*)	Germany	Designing and manufacture of gearboxes	100.00	-	100.00	-
HHI MAURITIUS LIMITED	Mauritius	Manufacturing	100.00	-	100.00	-
Hyundai West Africa Limited	Nigeria	Manufacture of other transport equipment	100.00	70	100.00	70
Hyundai Arabia Company LLC.(*2)	Saudi Arabia	Industrial plant construction	70.00	-	70.00	2,032
				<u>₩ 5,991,527</u>		<u>₩ 6,060,057</u>

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

(*2) As of December 31, 2014, due to continuous loss of the subsidiaries of Hyundai-Vinashin Shipyard Co. Ltd., Hyundai Heavy Industries Brasil, Hyundai Electrosystems Co. Ltd., HHI Battery Co. Ltd. and Hyundai Arabia Company L.L.C, the Company recognized an impairment loss amounting to ₩10,665 million, ₩25,326 million, ₩32,143 million, ₩13,905 million and ₩2,032 million. The Company estimated the recoverable amount of the Hyundai-Vinashin Shipyard Co. Ltd., and Hyundai Heavy Industries Brasil based on value in use which is estimated by applying an after-tax discount rate of 10.32% and 12.92%.

The change in investments in subsidiaries for the year ended December 31, 2014 is due to the capital increase, disposal and stock exchange except for the above impairment loss.

12. Investments in Associates

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

(In millions of won, except percentage of ownership)

Associates	Location	Particulars	2014		2013	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
New Korea Country Club	Korea	Country club	40.00	₩ 31,545	40.00	₩ 31,545
Hyundai Merchant Marine Co., Ltd.(*1)	Korea	Shipping	-	-	13.84	360,634
Taebaek Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	35.00	5,299	35.00	5,299
Muju Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	45.00	5,130	45.00	5,130
Pyeongchang Wind Power Co., Ltd.(*4)	Korea	Sale and manufacture of facilities for wind power generation	23.00	3,566	35.00	893
Jinan Jangsu Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	32.00	128	32.00	128

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12. Investments in Associates, Continued

Investments in associates as of December 31, 2014 and 2013 are summarized as follows, continued:

(In millions of won, except percentage of ownership)

Associates	Location	Particulars	2014		2013	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Changjuk Wind Power Co., Ltd.	Korea	Sale and manufacture of facilities for wind power generation	43.00	5,448	43.00	5,448
Hyundai Corporation	Korea	Exporting	22.36	105,134	22.36	105,134
Daesung Win-Win Fund(*2)	Korea	Investment service in culture contents field	16.67	7,000	16.67	7,000
Qinhuangdao Shouqin Metal Materials Co., Ltd.(*3)	China	Thick plate-oriented comprehensive iron manufacturing	20.00	37,409	20.00	80,555
PT. Hyundai Machinery Indonesia	Indonesia	Import and wholesale of machinery equipment for construction	20.83	155	20.83	155
Hyundai Primorye Ltd.	Russia	Farmland leasing service	49.99	6,338	49.99	6,338
Hyundai Green Industries Co., W.L.L.	Kuwait	Education	49.00	992	49.00	992
				<u>₩ 208,144</u>		<u>₩ 609,251</u>

(*1) During the current year, the percentage of ownership of Hyundai Merchant Marine Co., Ltd. was decreased by increase in capital. Accordingly, the Company has no significant influence in Hyundai Merchant Marine Co., Ltd. and its securities have been reclassified to available-for-sale financial asset.

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

(*3) As of December 31, 2014, due to continuous loss the Company recognized an impairment loss amounting to ₩43,146 million, and the Company estimated the recoverable amount based on value in use which is estimated by applying an after-tax discount rate of 9.87%

(*4) As of December 31, 2014, the Company collateralized its equity securities for Pyeongchang Wind Power Co., Ltd., which is related parties.(note 42)

The change in investments in associates for the year ended December 31, 2014 is due to the capital increase except for the above impairment loss and reclassified to available-for-sale financial asset of Hyundai Merchant Marine Co. Ltd.,

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13. Investments in Joint Ventures

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

(In millions of won, except percentage of ownership)

Joint ventures	Location	Particulars	2014		2013	
			Ownership (%)	Carrying amount	Ownership (%)	Carrying amount
Wärtsilä-Hyundai Engine Company Ltd.	Korea	Manufacture, assemble and test of marine engines and parts	50.00	₩ 40,496	50.00	₩ 40,496
Hyundai Cummins Engine Company	Korea	Manufacture of engines	50.00	35,775	50.00	33,719
Hyundai-Avancis Co., Ltd.	Korea	Sale and manufacture of solar module	50.00	34,142	50.00	34,142
Grand China Hyundai Shipping Co., Ltd.	Hong Kong	Acquiring, renting, leasing and chartering of bulk carrier	50.00	292	50.00	292
BMC Hyundai S.A.	Brazil	Selling construction equipment	30.00	5,338	-	-
				₩ 116,043		₩ 108,649

The change in investments in joint ventures for the year ended December 31, 2014 is due to the capital increase and capital exchange.

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 Company 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 Company 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, except percentage of ownership)

Company	Ownership (%)	2014		2013	
		Acquisition cost	Carrying amount	Acquisition cost	Carrying amount
Listed equity securities:					
Kia Motors Corporation	- ₩	-	-	2,682	4,951
Hyundai Merchant Marine Co., Ltd.(*4)	12.85	360,634	234,240	-	-
Korea Line Corporation (*3)	-	-	-	55,131	107
Mirae Asset Securities Co., Ltd.	-	-	-	6,654	1,611
Hyundai Elevator Co., Ltd.	-	-	-	6,738	10,382
Hyundai Motor Company	2.00	300,481	743,600	300,481	1,040,600
Korea Environment Technology Co., Ltd.	7.58	1,909	10,352	1,909	8,703
Ssangyong Motor Co., Ltd.	-	-	-	23	12
HI Special Purpose Acquisition Company	-	-	-	30	87
Dongyang Co. Ltd.(*3)	-	-	-	-	-
		<u>663,024</u>	<u>988,192</u>	<u>373,648</u>	<u>1,066,453</u>
Unlisted equity securities (*1):					
Gangwon Football Club Co., Ltd.	0.01	1	-	1	-
Kuk Dong Heavy Conveyance Co., Ltd.	7.50	502	502	502	502
Daehan Oil Pipeline Corporation (*2)	6.39	14,512	33,117	14,512	33,275
Dong-A Precision Machinery. Co., Ltd.	0.01	35	-	35	-
Doosan Capital Co., Ltd. (*2)	7.14	10,000	6,214	10,000	10,348
Bexco, Ltd.	7.96	9,460	9,460	9,460	9,460
Chonggu Co., Ltd.	0.00	188	-	188	-
Hanwha Electric Venture Fund	2.00	220	220	220	220
Hyundai Research Institute	14.40	1,440	1,440	1,440	1,440
Hyundai Climate Control Co., Ltd.	10.00	50	50	50	50
Hynix Semiconductor America Inc.	1.33	34,525	-	34,525	-
KC Karpovsky BV	10.00	2	-	2	-
Korea Ship Finance Co., Ltd.	2.36	200	200	200	200
Nikorma Transport Limited	11.50	11	11	11	11
Ajincartech. Inc.	-	3	-	3	-
OSX Construção Naval S.A. (*3)	10.00	57,498	-	57,498	10,977
Korea Defense Industry Association	1.26	1,500	1,500	1,500	1,500
KoFC IBK Hi Investment Hyundai Heavy Industries Shared Growth No.1. Private Equity Fund	10.00	5,339	5,339	5,148	5,148
ENOVA SYSTEMS Inc.	0.67	1,315	-	1,315	-
Kuk dong E & C	0.11	272	-	272	-
Glosil Co., Ltd.	0.01	5	-	5	-
Ksolar Co., Ltd.	2.88	232	-	232	-
Halla industry Co., Ltd.	-	-	-	161	-
		<u>137,310</u>	<u>58,053</u>	<u>137,280</u>	<u>73,131</u>
Beneficiary certificates:					
Korea Investment Private Korea Exim bank Carbon Special Asset Trust I (Carbon Emission Right)	7.09	2,376	772	3,402	1,190
Investments in capital and others(*1)		<u>5,175</u>	<u>5,175</u>	<u>5,193</u>	<u>5,193</u>
	₩	<u>807,885</u>	<u>1,052,192</u>	<u>519,523</u>	<u>1,145,916</u>

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15. Available-for-sale Financial Assets, Continued

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

- (*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) 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 estimation of free cash flow.
- (*3) As of December 31, 2014, due to continuous loss making of investee, the Company recognized an impairment loss because the carrying amount of the investment exceeds its recoverable amount.
- (*4) For the year ended December 31, 2014, the Company's percentage of ownership of in 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 Company no longer has significant influence in Hyundai Merchant Marine Co., Ltd. and its investments have been reclassified to available-for-sale financial asset. Also, the fair value of the equity securities of Hyundai Merchant Marine Co., Ltd., fell significantly below the acquisition cost, the Company recognized an impairment loss of ₩ 146,070 million for the year ended December 31, 2014.

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

(In millions of won)

		2013		
		Land	Buildings	Total
Beginning balance	₩	205,894	107,175	313,069
Acquisition and other		26,035	107,239	133,274
Disposals		-	-	-
Depreciation		-	(6,345)	(6,345)
Ending balance	₩	<u>231,929</u>	<u>208,069</u>	<u>439,998</u>
Acquisition cost		231,929	250,077	482,006
Accumulated depreciation		-	(42,008)	(42,008)

(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	₩	12,896	15,839
Operating and maintenance expense arising from investment property that generated rental income		7,682	6,984

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16. Investment Property, Continued

(3) Fair value from investment property for the years ended December 31, 2014 and 2013 is as follows

(In millions of won)

	2014		2013	
	Book value	Fair value	Book value	Fair value
Land	₩ 213,116	302,765	231,929	286,980
Buildings	197,675	276,897	208,069	265,063
	₩ <u>410,791</u>	<u>579,662</u>	<u>439,998</u>	<u>552,043</u>

The fair value of investment property was determined by external, independent valurers, having appropriate recognized professional qualifications and experience in relation to the assessment of real estate in the Republic of Korea. The valuation is achieved by using comparison methods to obtain the economic value based on marketability of the property. The Company calculated fair value considering the standard market price after transition date in order to estimate the fair value of investment property as of December 31, 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	₩ 2,895,105	1,924,915	1,234,653	1,335,069	200,506	472,262	8,062,510
Acquisitions and other	29,972	30,904	42,112	134,300	237,190	190,117	664,595
Disposals	(627)	(2,032)	(63)	(946)	(282)	(620)	(4,570)
Depreciation	-	(66,215)	(40,299)	(191,737)	-	(153,657)	(451,908)
Impairment	-	-	-	-	(15,542)	-	(15,542)
Ending balance	₩ 2,924,450	1,887,572	1,236,403	1,276,686	421,872	508,102	8,255,085
Acquisition cost	2,924,450	2,608,611	1,636,155	3,893,123	437,414	2,084,131	13,583,884
Accumulated depreciation	-	(721,039)	(399,752)	(2,533,402)	-	(1,574,816)	(5,229,009)
Accumulated impairment	-	-	-	(83,035)	(15,542)	(1,213)	(99,790)

(In millions of won)

	2013						
	Machinery and Construction						Total
	Land	Buildings	Structures	equipment	in-progress	Others	
Beginning balance	₩ 2,872,150	2,018,885	1,228,559	1,413,223	192,845	420,202	8,145,864
Acquisitions and other	31,676	(21,717)	45,220	126,120	13,058	202,008	396,365
Disposals	(8,721)	(7,129)	(2)	(912)	(5,397)	(367)	(22,528)
Depreciation	-	(65,124)	(39,124)	(203,362)	-	(149,581)	(457,191)
Ending balance	₩ 2,895,105	1,924,915	1,234,653	1,335,069	200,506	472,262	8,062,510
Acquisition cost	2,895,105	2,579,085	1,594,129	3,773,559	200,506	1,930,457	12,972,841
Accumulated depreciation	-	(654,170)	(359,476)	(2,355,455)	-	(1,456,982)	(4,826,083)
Accumulated impairment	-	-	-	(83,035)	-	(1,213)	(84,248)

(2) A substantial portion of buildings, machinery and equipment are insured against fire and other casualty losses up to approximately ₩4,179,499 million as of December 31, 2014. The Company maintains insurance coverage against fire and other casualty losses of up to ₩15,221,066 million for ships and sea structures under construction. Insurance proceeds of ₩1,651,566 million are pledged as collateral for the guarantees from the Export-Import Bank of Korea as of December 31, 2014.

In addition to the above insurance, most valuable property owned by the Company is covered by a general liability insurance policy up to ₩34,109,192 million as of December 31, 2014. The Company also maintains insurance on cargo against damage and claims losses of up to ₩11,180,269 million for products being exported and imported as of December 31, 2014.

(3) During 2014, due to the low profitability of the solar energy industry caused by oversupply, the Company assessed the recoverable amount of the related product line (CGU). The recoverable amount of the CGU was estimated based on its value in use. As a result, the carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss of ₩15,542 million was recognized and the estimate of value in use was determined using an after-tax discount rate of 7.00% for the year ended December 31, 2014.

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

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18. Intangible Assets

(1) Changes in development costs 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	₩ 336,523	312,356
Acquisition and other	56,752	83,131
Amortization	(63,796)	(58,964)
Impairment(*)	(19,678)	-
Ending balance	<u>₩ 309,801</u>	<u>336,523</u>
Acquisition cost	859,826	803,074
Accumulated amortization	(529,288)	(465,492)
Accumulated impairment	(20,737)	(1,059)

(*) During 2014, the Company recognized impairment loss for development subject that is interrupted.

(2) Other intangible assets include usable and profitable donation assets to Maritime Affairs and Port Office and intangible assets with indefinite useful lives. Changes in other intangible assets for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Beginning balance	₩ 59,287	61,397
Acquisition and other	1,974	2,956
Disposals	(3,220)	(2,847)
Amortization	(2,220)	(2,219)
Ending balance(*)	<u>₩ 55,821</u>	<u>59,287</u>
Acquisition cost	92,077	93,323
Accumulated amortization	(36,256)	(34,036)

(*) The carrying amount of intangible assets with indefinite useful lives is ₩44,848 million and ₩46,094 million as of December 31, 2014 and 2013, respectively.

(3) Research costs amounting to ₩33,767 million and ₩24,694 million, and ordinary development costs amounting to ₩173,334 million and ₩145,095 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 ₩63,796 million are included in the manufacturing cost and ₩ 415 million are included in selling, general and administrative expenses for the year ended December 31, 2014. Amortization of capitalized development costs of ₩ 58,964 million were included in the manufacturing cost for the years ended December 31, 2013

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19. Short-term and Long-term Financial Liabilities

Short-term financial and long-term 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	₩	2,843,404	2,431,042	5,363,665	522,200
Debentures		800,000	1,229,760	-	1,516,590
Discount on debentures		(285)	(3,418)	-	(4,646)
	₩	<u>3,643,119</u>	<u>3,657,384</u>	<u>5,363,665</u>	<u>2,034,144</u>

20. 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	₩	2,319,655	-	1,926,234	-
Other accounts payable		462,949	-	358,228	-
Accrued dividends		933	-	-	-
Accrued expenses		903,403	-	416,902	-
Deposits received		-	11,581	-	11,558
	₩	<u>3,686,940</u>	<u>11,581</u>	<u>2,701,364</u>	<u>11,558</u>

21. Borrowings and Debentures

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

(In millions of won)

Type of borrowing	Lender	Annual Interest rate (%)	2014	2013
General loan	China Construction Bank Corporation and others	3.00~3.40	₩ 300,000	-
Commercial paper	Shinhan Investment & Securities and others	2.32~2.57	250,000	1,000,000
Invoice loan	Mizuho Corporate Bank and others	0.69~1.13	538,372	912,159
Usance L/C	Korea Exchange Bank and others	0.36~1.53	1,230,091	701,506
Pre-shipment credit	Export-Import Bank of Korea	2.83~2.92	400,000	1,470,000
Coexistence cooperation loan	Export-Import Bank of Korea	2.70	24,941	-
			<u>2,743,404</u>	<u>4,083,665</u>
Current portion of long-term borrowings			100,000	1,280,000
			<u>₩ 2,843,404</u>	<u>5,363,665</u>

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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21. Borrowings and Debentures, Continued

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

(In millions of won)

Type of borrowing	Lender	Annual Interest rate (%)	2014	2013
General loan in local currency	Hana Bank and others	3.00~3.85	₩ 650,000	200,000
Commercial paper	SK Securities Co., Ltd. and others	-	-	950,000
General loan in foreign currency	Hana Bank and others	1.99~2.18	769,440	211,060
Business loans(*)	Korea National Oil Corporation	0.75~3.75	11,602	11,140
Pre-shipment credit	Export-Import Bank of Korea and others	3.09~3.60	1,100,000	430,000
			2,531,042	1,802,200
Current portion			(100,000)	(1,280,000)
			₩ 2,431,042	522,200

(*) During 2013, the consortium that included the Company decided to withdraw from its oil development business in the 4 mining areas in Yemen and Kazakhstan mining development business through sale of shares. The maturities of business loans (₩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.

(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 rd debenture	2015.02.17	3.96	₩ 500,000	500,000
114 ^{st-1} debenture	2015.07.24	3.23	300,000	300,000
114 ^{st-2} debenture	2017.07.24	3.35	400,000	400,000
116 ^{st-1} debenture	2017.02.26	3.14	200,000	-
116 ^{st-2} debenture	2019.02.26	3.45	300,000	-
Foreign currency bond	2016.06.10	1.14	329,760	316,590
			2,209,760	1,516,590
Bond Discounts			(3,703)	(4,646)
Current portion			(800,000)	-
Discount on current portion			285	-
			₩ 1,226,342	1,511,944

(4) Aggregate maturities of the Company'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	₩ 2,843,404	800,000	3,643,404
2016.01.01~2019.12.31	2,419,440	1,229,760	3,649,200
2020.01.01 and thereafter	11,602	-	11,602
	₩ 5,274,446	2,029,760	7,304,206

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21. Borrowings and Debentures, Continued

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

(In millions of won)

Periods	2013		
	Borrowings	Debentures	Total
2014.01.01~2014.12.31	₩ 5,363,665	-	5,363,665
2015.01.01~2018.12.31	511,060	1,516,590	2,027,650
2019.01.01 and thereafter	11,140	-	11,140
	₩ 5,885,865	1,516,590	7,402,455

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

(In millions of won)

	Currency	Annual interest rate (%)	Face value	Carrying amount	Maturity
Beginning balance			₩ 7,402,455	7,397,809	
Issues					
Pre-shipment credit	KRW	2.83~3.60	3,200,000	3,200,000	2014~2016
Coexistence cooperation loan	KRW	2.70	24,941	24,941	2015
Debentures	KRW and others	3.14~3.45	500,000	498,393	2017~2019
General borrowings	KRW and others	0.36~3.85	7,497,447	7,497,447	2014~2017
			11,222,388	11,220,781	
Repayment					
Pre-shipment credit	KRW	3.30~3.75	(3,600,000)	(3,600,000)	
General borrowings	KRW and others	0.36~3.76	(7,819,062)	(7,819,062)	
			(11,419,062)	(11,419,062)	
The effects of changes in foreign exchange rates			98,425	98,425	
Amortization of bond discounts			-	2,550	
			₩ 7,304,206	7,300,503	

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22. 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>	<u>2014</u>	<u>2013</u>
Present value of defined benefit obligations	₩ 1,361,484	1,068,756
Fair value of plan assets	(919,337)	(948,301)
	<u>₩ 442,147</u>	<u>120,455</u>

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

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Retirement pension(*)	₩ 908,456	935,792
Transfer to National Pension Fund	10,881	12,509
	<u>₩ 919,337</u>	<u>948,301</u>

(*) All retirement pensions are invested in principal and interest guaranteed products as of December 31, 2014 and 2013.

(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	₩ 151,203	135,119
Past service credit	109,059	-
Interest on obligations	40,340	34,192
Expected return on plan assets	(36,459)	(28,236)
	<u>₩ 264,143</u>	<u>141,075</u>

(4) Changes in the present value of 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	₩ 1,068,756	1,000,373
Current service costs	151,203	135,119
Past service credit	109,059	-
Interest on obligations	40,340	34,192
Benefits paid	(146,651)	(53,823)
Transfers from related parties	2,947	2,684
Actuarial loss(gain) in other comprehensive income	135,830	(49,789)
Demographic assumption	6,530	(160)
Financial assumption	95,541	(75,498)
Experience adjustment	33,759	25,869
Ending balance	<u>₩ 1,361,484</u>	<u>1,068,756</u>

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22. Employee Benefits, Continued

(5) Changes in the fair value of plan assets 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	₩	948,301	827,700
Benefits paid		(128,993)	(28,411)
Contributions paid into the plan		75,000	120,000
Expected return on plan assets		36,459	28,236
Actuarial gains in other comprehensive income		(11,430)	776
Ending balance	₩	<u>919,337</u>	<u>948,301</u>

The Company is 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 Company expects to pay ₩ 135,814 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 are as follows:

<i>(In millions of won)</i>		<u>2015.01.01~ 2015.12.31</u>	<u>2016.01.01~ 2019.12.31</u>	<u>2020.01.01~ 2024.12.31</u>	<u>2025.01.01~</u>	<u>Total</u>
Expected payment	₩	33,385	583,312	723,529	3,507,360	4,847,586

(7) Principal actuarial assumptions at the reporting dates are as follows:

		<u>2014</u>	<u>2013</u>
Discount rate		3.08%	4.07%
Future salary growth		3.00%	3.00%
Future mortality (Males, at age 45)		0.25%	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.

<i>(In millions of won)</i>		<u>2014</u>		<u>2013</u>	
		<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	₩	(104,873)	122,963	(65,278)	75,222
Future salary growth (1% movement)		99,393	(86,782)	65,875	(58,192)

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22. Employee Benefits, Continued

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

<i>(In millions of won)</i>	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
Defined benefit obligations	₩ 1,361,484	1,068,756	1,000,373	836,804	768,243
Plan assets	(919,337)	(948,301)	(827,700)	(746,062)	(699,903)
Deficit	442,147	120,455	172,673	90,742	68,340
Experience adjustments on plan liabilities	135,830	(49,789)	53,702	78,000	99,380
Experience adjustments on plan assets	11,430	(776)	1,067	(3,811)	1,776

23. Long-term Provisions

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

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

(*) It is recognized as a financial liability related to the financial guarantee contract of a subsidiary during 2014.

<i>(In millions of won)</i>	2013		
	Provision for construction warranty	Provision for product warranty	Total
Beginning balance	₩ 188,450	64,057	252,507
Addition	146,468	83,369	229,837
Reversal	(3,183)	(2,102)	(5,285)
Utilization	(18,917)	(76,755)	(95,672)
Ending balance	₩ 312,818	68,569	381,387

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24. Derivative Financial Instruments

The Company has entered into derivative instrument contracts related to foreign currency forward with 27 banks, including Korea Exchange Bank, to hedge the changes in foreign exchange rates. Derivatives are measured at fair value by using forward exchange rate presented by the contract counterparty.

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

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

(2) Terms of derivative contracts as of December 31, 2014 are as follows:

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

Description	Currency		Contract amount	Number of contracts	Weighted average exchange rate	Average maturities
	Sell	Buy				
Fair value hedge	EUR	KRW ₩	3,289	3	1,481.86	2015.08.29
	USD	KRW	10,766,118	2,210	1,101.56	2016.01.20
Cash flow hedge	EUR	KRW	23,998	9	1,377.50	2015.04.27
	KRW	EUR	11,151	12	1,450.50	2016.02.09
	KRW	USD	638,568	74	1,106.31	2015.08.16
	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	1,017,099	104	1,076.79	2015.07.28
For trading	USD	NOK	10,236	3	6.02	2015.02.14
	USD	KRW	4,446	1	1,107.51	2015.01.28

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

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

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24. Derivative Financial Instruments, Continued

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

(In millions of won)

Description	Financial assets or liabilities at fair value through profit or loss															
	Derivatives				Assets				Liabilities				Firm commitment			
	Assets		Liabilities		Assets		Liabilities		Assets		Liabilities		Assets		Liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Fair value hedge	₩ 95,212	13,348	62,964	85,973	-	-	-	-	59,425	85,793	63,741	10,556				
Cash flow hedge	6,182	3,035	82,550	4,097	-	-	-	-	-	-	-	-				
For trading	-	-	-	-	32	-	-	-	-	-	-	-				
	₩ 101,394	16,383	145,514	90,070	32	-	-	-	59,425	85,793	63,741	10,556				

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

(In millions of won)

Description	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 loss
Fair value hedge	₩ 245,225	-	218,260	376,654	312,062	133,173	-
Cash flow hedge	43,870	81,556	1,700	127	-	-	(38,981)
For trading	-	-	2,654	6,618	-	-	-
	₩ 289,095	81,556	222,614	383,399	312,062	133,173	(38,981)

As of December 31, 2014, the Company applies cash flow hedge accounting, out of which the Company accounted for the effective portion of the hedge amounting to ₩(-)38,981 million, net of tax of ₩9,434 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 44 months.

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25. Capital and Capital Surplus

- (1) The Company 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 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	₩ 899,130	899,130
Other capital surplus	(55,806)	(55,806)
	<u>₩ 843,324</u>	<u>843,324</u>

Other capital surplus is composed of ₩33,382 million of gain on disposal of investment in Hyundai Mipo Dockyard Co., Ltd., which was transferred to Hyundai Samho Heavy Industries Co., Ltd., ₩145,981 million of gain on disposal of treasury stock (net of tax effect) and ₩21,830 million of gain on business combination and others.

Capital surplus is only available for the reduction of accumulated deficit or transfer to capital stock.

- (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

26. Hybrid Bonds

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

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

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26. 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 st -1 Hybrid bonds	1 st -2 Hybrid bonds
Amount Issued	KRW 360,000	KRW 70,000
Maturity	30years(At maturity, it can be extended in accordance with the company's decision)	
Interest rate	Issue date ~ 2019.12.15 : Fixed rate 4.90% Re-calculated and applied every 5 years, 5-year treasury bond yield + annual 2.55% + annual 2.00% (Step-up clauses)	Issue date ~ 2019.12.15 : Fixed rate 4.80% Re-calculated and applied every 5 years, 5-year treasury bond yield + annual 2.45% + annual 2.00% (Step-up clauses)
Interest payment condition	3 months deferred payment, selective payment postpone is possible	
Other	Depending on company's choice, 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.

27. Treasury Stock

Treasury stock as of December 31, 2014 and 2013 is summarized as follows:

(In millions of won except share information)

	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

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28. Accumulated Other Comprehensive Income

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

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Gain on valuation of available-for-sale financial assets	₩ 365,086	581,649
Loss on valuation of derivatives	(58,991)	(29,444)
	<u>₩ 306,095</u>	<u>552,205</u>

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

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

<i>(In millions of won)</i>	<u>2013</u>		
	<u>Before tax amount</u>	<u>Tax effect</u>	<u>After tax amount</u>
Change in fair value of available-for-sale financial assets	₩ 81,268	(19,667)	61,601
Effective portion of changes in fair value of cash flow hedges	(10,553)	2,554	(7,999)
Defined benefit plan actuarial gains (losses)	50,565	(12,237)	38,328
	<u>₩ 121,280</u>	<u>(29,350)</u>	<u>91,930</u>

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29. 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>
Legal reserves:		
Legal appropriated retained earnings(*1)	₩ 190,000	190,000
Reserve for corporate development(*2)	30,000	30,000
Asset revaluation surplus	1,800,414	1,800,414
	<u>2,020,414</u>	<u>2,020,414</u>
Voluntary reserves(*3):		
Reserve for business rationalization	87,277	87,277
Reserve for facilities	78,270	78,270
Reserve for research and human development	626,667	570,000
Others	12,068,839	11,758,088
	<u>12,861,053</u>	<u>12,493,635</u>
Unappropriated retained earnings	<u>(1,867,008)</u>	<u>489,995</u>
	<u>₩ 13,014,459</u>	<u>15,004,044</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	₩ 15,004,044	14,667,270
Profit (loss) for the year	(1,754,677)	451,668
Actuarial losses	(111,623)	38,327
Dividends	(122,577)	(153,221)
Hybrid bonds interest	(708)	-
Ending balance	<u>₩ 13,014,459</u>	<u>15,004,044</u>

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29. Retained Earnings, Continued

- (3) Statements of appropriation of retained earnings for the years ended December 31, 2014 and 2013 are as follows:

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
I. Unappropriated retained earnings	₩ (1,867,008)	489,995
Unappropriated retained earnings to be carried from previous year	-	-
Actuarial gain (loss)	(111,623)	38,327
Profit (loss) for the year	(1,754,677)	451,668
Hybrid bonds interest	(708)	-
II. Transfer from voluntary reserves	1,867,008	133,333
Reserve for research and human development	170,000	133,333
Voluntary reserve	1,697,008	-
III. Total (I + II)	-	623,328
VI. Appropriation of retained earnings	-	623,328
Reserve for research and human development	-	190,000
Voluntary reserves	-	310,751
Dividends	-	122,577
V. Unappropriated retained earnings to be carried over to subsequent year	₩ -	-

30. 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	₩ 16,334,221	16,076,094
Goods sold	6,940,421	7,984,581
Services	188,819	222,062
	₩ <u>23,463,461</u>	<u>24,282,737</u>

The foreign sales accounting to ₩21,157,758 million, and domestic sales accounting to ₩2,305,703 million for the year ended December 31, 2014.

- (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(*)	₩ 16,514,264	23,985,097	40,499,361
Increase during the period	6,646,687	14,739,890	21,386,577
Recognized as revenue	(9,349,378)	(14,114,083)	(23,463,461)
Ending balance	₩ <u>13,811,573</u>	<u>24,610,904</u>	<u>38,422,477</u>

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

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

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30. Outstanding Contracts, Continued

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

(In millions of won)

	Accumulated revenue of construction	Accumulated cost of construction	Accumulated profit and loss of construction	Billed receivables on construction contracts	Unbilled receivables on construction contracts	Due to customers for contract work
Shipbuilding	₩ 8,232,103	8,641,610	(409,507)	93,324	3,101,426	1,950,939
Others	17,572,932	18,027,051	(454,119)	248,370	1,604,729	3,306,358
	<u>₩ 25,805,035</u>	<u>26,668,661</u>	<u>(863,626)</u>	<u>341,694</u>	<u>4,706,155</u>	<u>5,257,297</u>

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

31. Selling, General and Administrative Expenses

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

(In millions of won)

	2014	2013
Salaries	₩ 362,115	317,583
Post-employment benefit costs	46,122	20,162
Employee welfare	99,864	78,155
Depreciation	37,406	36,912
Amortization	415	-
Bad debt expenses	61,455	189,925
Ordinary development costs	173,334	145,095
Advertising	46,750	53,548
Printing	1,887	1,915
Compensation	149	330
Warranty expenses	126,888	129,088
Insurance	1,800	2,209
Supplies	6,199	6,179
Utilities	3,467	3,855
Repairs	6,232	4,698
Travel	15,377	17,912
Research	33,767	24,694
Training	10,628	8,317
Transportation	98,398	127,145
Rent	15,813	13,464
Data processing	11,406	10,488
Entertainment	1,803	2,284
Taxes and dues	5,587	2,864
Service charges	77,334	82,677
Automobile maintenance	6,806	7,020
Communications	4,744	6,889
Sales commissions	50,540	52,772
Others	26,937	25,507
	<u>₩ 1,333,223</u>	<u>1,371,687</u>

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32. 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	₩ (527,544)	301,959
Purchase of inventories	15,225,022	15,185,909
Depreciation	457,981	463,536
Amortization	66,016	61,183
Labor cost	2,322,611	2,068,271
Other expenses	7,842,626	5,467,084
	<u>₩ 25,386,712</u>	<u>23,547,942</u>

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

33. Finance Income and Finance Costs

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

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Finance income:		
Interest income	₩ 37,533	50,212
Gain on valuation of financial instruments at fair value through profit or loss	32	1,791
Gain on disposal of financial instruments at fair value through profit or loss	2,622	12,793
Gain on disposal of available-for-sale financial assets	5,401	64
Dividend income	89,441	37,416
Gain on foreign currency translation	105,279	96,466
Gain on foreign currency transactions	367,372	382,500
Gain on valuation of derivatives	15,277	391,717
Gain on derivatives transactions	204,683	153,627
	<u>₩ 827,640</u>	<u>1,126,586</u>
Finance costs:		
Interest expense	₩ 85,746	115,916
Loss on disposal of financial instruments at fair value through profit or loss	6,618	37,462
Loss on disposal of available-for-sale financial assets	715	65
Impairment loss on available-for-sale financial assets	158,021	48,657
Loss on foreign currency translation	159,252	73,200
Loss on foreign currency transactions	370,924	321,020
Loss on valuation of derivatives	240,643	1,704
Loss on derivatives transactions	136,138	168,870
Provision for others addition	84,201	-
	<u>₩ 1,242,258</u>	<u>766,894</u>

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

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

(In millions of won)

	<u>2014</u>	<u>2013</u>
Other non-operating income:		
Reversal of other allowance for other doubtful accounts	₩ 25,256	-
Gain on disposal of subsidiaries, associates and joint venture	-	1,185
Gain on disposal of property, plant and equipment	1,790	2,306
Gain on disposal of intangible assets	800	118
Gain on valuation of firm commitments	312,062	91,000
Miscellaneous income	85,735	171,428
	<u>₩ 425,643</u>	<u>266,037</u>
Other non-operating expenses:		
Service charges	₩ 9,299	12,859
Impairment loss on other current assets	6,593	-
Impairment loss on investments in subsidiaries and associates	127,217	144,393
Non-current assets classified as held for sale loss on impairment	-	3,931
Loss on disposal of property, plant and equipment	3,348	8,308
Impairment loss on property, plant and equipment	15,542	-
Loss on disposal of intangible assets	126	344
Impairment loss on intangible assets	19,678	-
Loss on valuation of firm commitments	133,173	467,181
Impairment loss on other non-current assets	-	63,307
Loss on disposal of non-current assets	-	352
Loss on disposal of non-current assets classified as held for sale	-	5,237
Loss on investments in subsidiaries and associates	2,744	-
Other bad debt expenses	2,973	25,255
Donation	39,103	28,654
Miscellaneous expenses	65,130	106,935
	<u>₩ 424,926</u>	<u>866,756</u>

35. Income Tax Expense (Income)

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

(In millions of won)

	<u>2014</u>	<u>2013</u>
Current tax expense	₩ -	208,194
Adjustment for prior periods	(5,697)	(76,865)
Origination and reversal of temporary differences	(691,214)	(59,878)
Income tax recognized in other comprehensive income	114,437	(29,350)
Total income tax expense (income)	<u>₩ (582,474)</u>	<u>42,101</u>

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35. Income Tax Expense (Income), Continued

- (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	₩ 69,141	(19,667)
Losses on valuation of derivatives	9,434	2,554
Defined benefit plan actuarial gain (loss)	35,637	(12,237)
Hybrid bonds interest	225	-
Income tax recognized directly in other comprehensive income	₩ <u>114,437</u>	<u>(29,350)</u>

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

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

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Profit (loss) before income tax	₩ (2,337,151)	493,768
Tax rate	24.20%	24.20%
Income tax using the Company's statutory tax rate	(565,591)	119,030
Adjustment for:		
- Tax effect of non-deductible expenses	4,288	9,493
- Tax effect of non-taxable incomes	(9,522)	(3,528)
- Tax credits	(14,989)	(15,968)
- Current adjustments for prior periods	(5,697)	(76,865)
- Other	9,037	9,939
Income tax expenses (benefits)	₩ <u>(582,474)</u>	<u>42,101</u>
Effective tax rate	% <u>(*)</u>	<u>8.53%</u>

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

- (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	₩ 424,218	(266,996)
Deferred assets (liabilities) at the beginning of the period	(266,996)	(326,874)
Deferred tax expenses by origination and reversal of temporary differences	₩ <u>(691,214)</u>	<u>(59,878)</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 Company sets off a deferred tax asset against a deferred tax liability only if it relates to income taxes levied by the same taxation authority and has a legally enforceable right to set off current tax assets against current tax liabilities.

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35. Income Tax Expense (Income), Continued

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

(In millions of won)

	Beginning balance	Change	Ending balance
2014			
Investments in subsidiaries and associates	₩ 38,810	30,566	69,376
Available-for-sale financial assets	(161,047)	103,592	(57,455)
Reserve for research and human development	(151,653)	41,140	(110,513)
Trade and other receivables	161,871	11,526	173,397
Asset revaluation	(295,605)	19	(295,586)
Property, plant and equipment	(46,262)	(5,315)	(51,577)
Derivatives	(18,580)	37,260	18,680
Accrued expenses	22,594	13,971	36,565
Others	182,876	321,771	504,647
	<u>(266,996)</u>	<u>554,530</u>	<u>287,534</u>
Loss carried forward	-	121,695	121,695
Carried forward tax credit	-	14,989	14,989
	<u>₩ (266,996)</u>	<u>691,214</u>	<u>424,218</u>
2013			
Investments in subsidiaries and associates	₩ 43,916	(5,106)	38,810
Available-for-sale financial assets	(152,697)	(8,350)	(161,047)
Reserve for research and human development	(137,940)	(13,713)	(151,653)
Trade and other receivables	135,185	26,686	161,871
Asset revaluation	(296,087)	482	(295,605)
Property, plant and equipment	(38,322)	(7,940)	(46,262)
Derivatives	(38,645)	20,065	(18,580)
Accrued expenses	19,584	3,010	22,594
Others	138,132	44,744	182,876
	<u>₩ (326,874)</u>	<u>59,878</u>	<u>(266,996)</u>

(8) The details of temporary difference that is not recognized as deferred tax assets (liabilities) as of December 31, 2014 and 2013 are as follows.

(In millions of won)

	2014	2013	Reason
Deferred tax assets (liabilities)			
Investments in subsidiaries and associates	₩ (405,698)	(418,326)	It will not be disposed.

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

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36. 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) for the year	₩ (1,754,677)	451,668
Interest of hybrid bonds	(708)	-
Weighted average number of ordinary shares outstanding <i>(In thousands of shares)</i>	<u>61,288</u>	<u>61,288</u>
Earnings (loss) per share <i>(In won)</i>	<u>₩ (28,641)</u>	<u>7,370</u>

(2) 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	61,288,440	365/365	61,288,440

(3) Since there are no potentially dilutive common shares as of December 31, 2014 and 2013, diluted earnings per share have not been calculated.

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37. Cash Generated from Operations

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

(In millions of won)

	2014	2013
Profit (loss) for the year	₩ (1,754,677)	451,668
Adjustments for:		
Post-employment benefit costs	264,143	141,075
Depreciation	457,981	463,536
Amortization	66,016	61,183
Bad debt expenses	61,455	189,925
Reversal of other allowance doubtful accounts	(25,256)	-
Finance income	(252,962)	(577,666)
Finance costs	836,689	316,637
Other non-operating income	(314,652)	(94,609)
Other non-operating expenses	311,541	718,980
Income taxes	(582,474)	42,101
Changes in assets and liabilities:		
Trade receivables	765,691	105,300
Other receivables	(43,857)	(207,907)
Due from customers for contract work	424,818	(1,557,988)
Inventories	(534,136)	301,959
Derivatives	320,319	330,152
Firm commitments	(276,017)	(252,630)
Other current assets	(43,492)	96,888
Long-term trade receivables	(23,613)	(317,963)
Trade payables	379,698	299,047
Other payables	577,750	122,652
Advances from customers	(15,791)	(135,777)
Due to customers for contract work	891,673	162,799
Long-term other payables	12	(670)
Benefits paid	(146,651)	(53,823)
Succession of Benefits	2,947	2,684
Plan assets	53,993	(91,589)
Long-term provisions	(5,271)	128,880
	₩ <u>3,150,554</u>	<u>193,176</u>

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38. 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)

	2014							
	Cash and cash equivalents	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivative assets	Financial liabilities measured at amortized cost	Derivative liabilities	Provision for others addition
Cash and cash equivalents	₩ 1,407,944	-	-	-	-	-	-	-
Short-term financial assets	-	32	-	149,700	-	-	-	-
Trade and other receivables	-	-	-	2,965,452	-	-	-	-
Due from customers for contract work	-	-	-	4,706,155	-	-	-	-
Derivative assets (current)	-	-	-	-	101,394	-	-	-
Long-term financial assets	-	-	1,052,192	33	-	-	-	-
Long-term trade and other receivables	-	-	-	294,797	-	-	-	-
Derivative assets (non-current)	-	-	-	-	16,383	-	-	-
Short-term financial liabilities	-	-	-	-	-	3,643,119	-	-
Trade and other payables	-	-	-	-	-	3,686,940	-	-
Derivative liabilities (current)	-	-	-	-	-	-	145,514	-
Long-term financial liabilities	-	-	-	-	-	3,657,384	-	-
Long-term trade and other liabilities	-	-	-	-	-	11,581	-	-
Derivative liabilities (non-current)	-	-	-	-	-	-	90,070	-
Provision for Others addition	-	-	-	-	-	-	-	84,201
	₩ 1,407,944	32	1,052,192	8,116,137	117,777	10,999,024	235,584	84,201

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For the years ended December 31, 2014 and 2013

38. 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	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivative assets	Financial liabilities measured at amortized cost	Derivative liabilities
Cash and cash equivalents	₩ 730,674	-	-	-	-	-	-
Short-term financial assets	-	5,727	-	149,700	-	-	-
Trade and other receivables	-	-	-	3,646,762	-	-	-
Due from customers for contract work	-	-	-	5,129,773	-	-	-
Derivative assets (current)	-	-	-	-	352,985	-	-
Long-term financial assets	-	-	1,145,916	33	-	-	-
Long-term trade and other receivables	-	-	-	292,512	-	-	-
Derivative assets (non-current)	-	-	-	-	200,580	-	-
Short-term financial liabilities	-	-	-	-	-	5,363,665	-
Trade and other payables	-	-	-	-	-	2,701,364	-
Derivative liabilities (current)	-	-	-	-	-	-	65,584
Long-term financial liabilities	-	-	-	-	-	2,034,144	-
Long-term trade and other liabilities	-	-	-	-	-	11,558	-
Derivative liabilities (non-current)	-	-	-	-	-	-	26,847
	₩ 730,674	5,727	1,145,916	9,218,780	553,565	10,110,731	92,431

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

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

<i>(In millions of won)</i>	Profit (loss) for the year		Other comprehensive income (loss)		Interest income and interest expense(*)		Impairment loss	
	2014	2013	2014	2013	2014	2013	2014	2013
Cash and cash equivalents	₩ 20,022	94,226	-	-	16,335	14,652	-	-
Financial assets at fair value through profit or loss	2,369	(22,878)	-	-	-	-	-	-
Available-for-sale financial assets	(144,184)	(39,744)	(216,563)	61,601	-	1	(158,021)	(48,657)
Loans and receivables	53,518	(323,655)	-	-	21,197	35,559	(39,172)	(215,180)
Financial liabilities at fair value through profit or loss	(6,333)	-	-	-	-	-	-	-
Financial liabilities measured at amortized cost	(322,075)	(54,847)	-	-	(193,857)	(193,010)	-	-
Derivative liabilities (non-current)	(161,131)	385,813	(29,547)	(7,999)	-	-	-	-
Provision for Others addition	(84,201)	-	-	-	-	-	-	-

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

39. 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>	2014	2013
Financial assets at fair value through profit or loss	₩ 32	5,727
Available-for-sale financial assets	1,052,192	1,145,916
Loans and receivables	8,116,137	9,218,780
Derivative assets	117,777	553,565
	<u>₩ 9,286,138</u>	<u>10,923,988</u>

The maximum exposure to credit risk for financial guarantee contracts is ₩602,137 million as of December 31, 2014 (see notes 40 and 42).

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39. Financial Instruments, Continued

(1) Credit risk, continued

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	₩ 1,880,707	2,046,151
North America	1,252,812	2,020,589
Asia	1,718,164	1,174,404
Europe	2,516,916	3,208,832
Others	747,538	768,804
	<u>₩ 8,116,137</u>	<u>9,218,780</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	₩ 7,288,499	(128,093)	8,857,543	(184,350)
Past due 0~6 months	462,827	(9,934)	382,327	(70,195)
Past due 6~12 months	191,165	(33,078)	209,929	(114,054)
Past due 1~3 years	851,435	(518,659)	441,473	(306,825)
More than three years	123,197	(111,222)	89,384	(86,452)
	<u>₩ 8,917,123</u>	<u>(800,986)</u>	<u>9,980,656</u>	<u>(761,876)</u>

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	₩ 761,876	636,589
Impairment loss recognized	87,431	363,679
Reversal of allowance accounts	(48,259)	(148,499)
Write-offs	(62)	(89,893)
Ending balance	<u>₩ 800,986</u>	<u>761,876</u>

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

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

<i>(In millions of won)</i>	<u>2014</u>	<u>2013</u>
Other bad debt expense	₩ 2,973	25,255
Reversal of other allowance doubtful accounts	(25,256)	-
	<u>₩ (22,283)</u>	<u>25,255</u>

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39. Financial Instruments, Continued

(1) Credit risk, continued

(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:

(In millions of won)

		2014				
		Carrying amount	6 months or less	6~12 months	1~3 years	More than 3 years
Loans and receivables	₩	955,731	452,893	158,087	332,776	11,975

(In millions of won)

		2013				
		Carrying amount	6 months or less	6~12 months	1~3 years	More than 3 years
Loans and receivables	₩	545,587	312,132	95,875	134,648	2,932

(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 and 2013 are summarized as follows:

(In millions of won)

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

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

The maximum amount of assurance for financial guarantee contracts is ₩517,936 million as of December 31, 2014 (see Notes 40 and 42).

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

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39. Financial Instruments, Continued

(2) Liquidity risk, continued

(i) The contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as of December 31, 2014 and 2013 are summarized as follows, continued:

(In millions of won)

		2013					
		Carrying amount	Contractual cash flow	6 months or less	6~12 months	1~3 years	More than 3 years
Non-derivative financial liabilities:							
Unsecured bank loans	₩	5,885,865	5,934,621	4,531,723	869,162	522,596	11,140
Unsecured bond issues		1,197,794	1,285,113	14,600	21,445	839,018	410,050
Secured bond issues		314,150	325,620	1,806	1,806	322,008	-
Trade and other payables		2,712,922	2,712,922	2,676,024	25,340	11,558	-
Derivative financial liabilities:							
Forward exchange contracts used for hedging:							
Outflow		92,431	95,955	37,188	29,901	28,856	10
	₩	<u>10,203,162</u>	<u>10,354,231</u>	<u>7,261,341</u>	<u>947,654</u>	<u>1,724,036</u>	<u>421,200</u>

(ii) The periods in which the cash flows associated with cash flow hedges are expected to occur as of December 31, 2014 and 2013 are summarised 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
Forward exchange contracts							
Assets	₩	10,079	10,414	4,446	2,751	3,217	-
Liabilities		(87,904)	(89,618)	(56,544)	(28,742)	(4,303)	(29)
	₩	<u>(77,825)</u>	<u>(79,204)</u>	<u>(52,098)</u>	<u>(25,991)</u>	<u>(1,086)</u>	<u>(29)</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
Forward exchange contracts							
Assets	₩	53,616	54,745	38,011	10,396	6,176	162
Liabilities		(92,460)	(95,901)	(38,108)	(29,673)	(28,110)	(10)
	₩	<u>(38,844)</u>	<u>(41,156)</u>	<u>(97)</u>	<u>(19,277)</u>	<u>(21,934)</u>	<u>152</u>

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39. Financial Instruments, Continued

(3) Currency risk

(i) Exposure to currency risk

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

(In millions of won)

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

(In millions of won)

		2013					Total
		USD	EUR	CNY	JPY	Others	
Cash and cash equivalents	₩	209,997	447	-	234	22,909	233,587
Loans and receivables		8,030,320	183,770	44,777	6,415	477,935	8,743,217
Trade and other payables		(1,292,946)	(124,674)	(1,238)	(4,942)	(91,840)	(1,515,640)
Borrowings		(1,816,180)	(261,479)	-	(70,001)	(4,794)	(2,152,454)
Gross statement of financial position exposure		5,131,191	(201,936)	43,539	(68,294)	404,210	5,308,710
Derivative contracts		466,002	18,271	-	(16,279)	(1,133)	466,861
Net exposure	₩	<u>5,597,193</u>	<u>(183,665)</u>	<u>43,539</u>	<u>(84,573)</u>	<u>403,077</u>	<u>5,775,571</u>

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	178.10	176.81	174.09
JPY(100)		996.19	1,123.41	920.14	1,004.66

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39. Financial Instruments, Continued

(3) Currency risk, Continued

(ii) Sensitivity analysis

A weakening of the won, as indicated below, against the USD, EUR, CNY, JPY and others as of December 31, 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 Company considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013. The changes in profit or loss are as follows:

(In millions of won)

	Profit or loss	
	2014	2013
USD (3 percent strengthening)	₩ 90,385	167,916
EUR (3 percent strengthening)	(9,816)	(5,510)
CNY (3 percent strengthening)	263	1,306
JPY (3 percent strengthening)	(3,853)	(2,537)

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.

(4) Interest rate risk

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

(In millions of won)

	2014	2013
Fixed rate instruments:		
Financial assets	₩ 1,601,602	1,413,781
Financial liabilities	(6,193,404)	(6,863,665)
	<u>₩ (4,591,802)</u>	<u>(5,449,884)</u>
Variable rate instruments:		
Financial assets	₩ 210,854	328,838
Financial liabilities	(1,110,802)	(538,790)
	<u>₩ (899,948)</u>	<u>(209,952)</u>

(ii) Fair value sensitivity analysis for fixed rate instruments

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

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39. Financial Instruments, Continued

- (4) Interest rate risk, continued
(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) 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 profit or loss are as follows:

(In millions of won)

	Profit or loss	
	100 bp increase	100 bp decrease
Variable rate instruments		
2014	₩ (8,999)	8,999
2013	(2,100)	2,100

- (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 values	Carrying amounts	Fair values
Assets carried at fair value:				
Financial assets at fair value through profit or loss	₩ 32	32	5,727	5,727
Available-for-sale financial assets(*)	1,052,192	1,052,192	1,145,916	1,145,916
Derivative assets	117,777	117,777	553,565	553,565
	₩ 1,170,001	1,170,001	1,705,208	1,705,208
Cash and cash equivalents	₩ 1,407,944	1,407,944	730,674	730,674
Assets carried at amortized cost:				
Loans and receivables	₩ 8,116,137	8,116,137	9,218,780	9,218,780
Liabilities carried at fair value:				
Derivative liabilities	₩ 235,584	235,584	92,431	92,431
	₩ 235,584	235,584	92,431	92,431
Liabilities carried at amortized cost:				
Unsecured bank loans	₩ 5,274,446	5,274,446	5,885,865	5,885,865
Unsecured bond issues	1,697,737	1,697,737	1,197,794	1,197,794
Secured bond issues	328,320	328,320	314,150	314,150
Trade and other payables	3,698,521	3,698,521	2,712,922	2,712,922
Provision for Others addition	84,201	84,201	-	-
	₩ 11,083,225	11,083,225	10,110,731	10,110,731

(*) 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 ₩23,897 million and ₩34,701 million, respectively.

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39. Financial Instruments, Continued

(5) Fair values, continued

(ii) Interest rates used for determining fair value

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

	<u>2014</u>	<u>2013</u>
Available-for-sale financial assets	8.16%	14.16%, 7.83%
Derivatives	4.43%	5.03%

(iii) Fair value hierarchy

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>
2014:				
Financial assets at fair value through profit or loss	₩ -	32	-	32
Available-for-sale financial assets	988,192	772	39,331	1,028,295
Derivative assets	-	117,777	-	117,777
Derivative liabilities	-	235,584	-	235,584
2013:				
Financial assets at fair value through profit or loss	-	5,727	-	5,727
Available-for-sale financial assets	1,066,453	-	44,762	1,111,215
Derivative assets	-	553,565	-	553,565
Derivative liabilities	-	92,431	-	92,431

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39. Financial Instruments, Continued

(5) Fair values, continued

(iii) Fair value hierarchy, continued

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

The valuation techniques and input variables used in measuring Level 2 fair values as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	2014	2013	Valuation techniques	Input variables
Available-for-sale financial assets:				
Korea Investment Private				
Korea Exim bank Carbon			Market approach	CER future price, discount rate and others
Special Asset Trust I	₩ 772	-		
Derivatives (Foreign currency forward):				
Financial assets or liabilities at fair value through profit or loss	32	5,727	Cash flow discount model	Currency forward price, discount rate and others
Derivative assets	117,777	553,565	Cash flow discount model	Currency forward price, discount rate and others
Derivative liabilities	235,584	92,431	Cash flow discount model	Currency forward price, discount rate and others

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39. 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)

	<u>2014</u>	<u>2013</u>
	<u>Available-for-sale financial assets:</u>	<u>Available-for-sale financial assets:</u>
Beginning balance	₩ 44,762	14,698
Transfer to Level 3	-	14,512
Transfer from Level 3	(1,139)	-
Included profits in other comprehensive income	(4,292)	15,552
	<u>₩ 39,331</u>	<u>44,762</u>

(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)

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

(In millions of won)

	<u>2013</u>	<u>Valuation techniques</u>	<u>Input variables</u>	<u>Significant unobservable input variables</u>	<u>Ranges of significant unobservable input variables</u>
Available-for-sale financial assets:					
DOOSAN CAPITAL CO.,LTD.	₩ 10,348	Cash flow discount model	Discount rate	Discount rate	14.16%
Daehan Oil Pipeline Corporation	33,275	Cash flow discount model	Discount rate	Discount rate	7.83%
	<u>₩ 43,623</u>				

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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39. Financial Instruments, Continued

(7) Level 3 fair values, continued

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

(In millions of won)

	Unobservable input variables	Effects by changes in unobservable input variables on fair value measurement	Measuring methods of the effect of changes	Effects of changes in fair value			
				Profit (loss) for the year		Other comprehensive income (loss)	
				Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Available-for-sale financial assets:							
DOOSAN CAPITAL CO.,LTD.	Market multiples	Fair value decrease by market multiples increase	Measuring fair value changes by 0.1 multiples increase or decrease	₩ -	(4,536)	748	3,786
Daehan Oil Pipeline Corporation	Discount rate	Fair value decrease by discount rate increase	Measuring fair value changes by 1% discount rate increase or decrease	-	-	4,208	(3,305)
				₩ -	(4,536)	4,956	481

(8) Transfers of financial assets

There are no transferred financial assets of December 31, 2014 and December 31, 2013

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

39. 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)

	2014					
	Total recognized financial assets	Total recognized financial assets that will be setoff	Net financial assets presented in the Statement of Financial Position	Related amount : won't be setoff in the Statement of Financial Position		
				Financial instruments	Received cash security	Net amount
Financial assets						
Trade and Other Receivables ₩	27,991	(18,676)	9,315	-	-	9,315
Financial liabilities						
Trade and other payables	54,753	(18,676)	36,077	-	-	36,077

(In millions of won)

	2013					
	Total recognized financial assets	Total recognized financial assets that will be setoff	Net financial assets presented in the Statement of Financial Position	Related amount : won't be setoff in the Statement of Financial Position		
				Financial instruments	Received cash security	Net amount
Financial assets						
Trade and Other Receivables ₩	25,857	(14,454)	11,403	-	-	11,403
Financial liabilities						
Trade and other payables	44,283	(14,454)	29,829	-	-	29,829

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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40. Commitments and Contingencies

- (1) As of December 31, 2014, the Company has entered into bank overdraft agreements with eight banks amounting to ₩228,000 million and general loan agreements with seventeen banks amounting to ₩1,215,000 million and USD 400,000 thousand.
- (2) As of December 31, 2014, the Company has entered into credit facilities agreements such as letters of credit with various banks for the Company's exports and imports totaling USD 4,665,025 thousand.
- (3) As of December 31, 2014, the Company has entered into credit facilities agreements such as pre-shipment credit with various banks totaling ₩4,280,000 million and USD 18,883 thousand.
- (4) As of December 31, 2014, seven bank notes and one check have been provided to customers as collaterals for the Company's borrowings from the customers and construction contract performance guarantees.
- (5) As of December 31, 2014, the Company is contingently liable for loan guarantees of its foreign subsidiaries amounting to USD 932,418 thousand. The Company 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., one of the Company's subsidiaries. The Company also provided performance guarantees in relation to 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 are being built by HHI France SAS and HHI Mauritius Ltd., one of the Company's subsidiaries. Furthermore the Company has also entered into joint shipbuilding contracts with Hyundai Samho Heavy Industries Co., Ltd., one of the Company's subsidiaries, for the construction of fine ships at a contract amount of USD 1,472,999 thousand
- (6) In connection with the Company's contract performance guarantees, the Company has been provided with guarantees amounting to ₩1,602,473 million and USD 14,614,959 thousand (maximum guarantees amounting to ₩4,900,621 million and USD 25,885,456 thousand, respectively) by various banking facilities, of which regarding ships advance from customers, the Company has also been provided with maximum guarantees amounting to USD 17,247,745 thousand by various banking facilities. Regarding this, the Company collateralizes its ships under construction and construction materials.
- (7) The Company entered into a consortium agreement on a resource development project with various organizations including Korea National Oil Corporation, and related other non-current assets as of December 31, 2014 and 2013 are as follows:

(In millions of won)

	<u>2014</u>	<u>2013</u>
Other non-current assets	₩ 63,307	63,307
Accumulated impairment losses	(63,307)	(63,307)
	<u>₩ -</u>	<u>-</u>

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

HYUNDAI HEAVY INDUSTRIES CO., LTD.
Notes to the Separate Financial Statements
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41. Litigations

- (1) The National Tax Service imposed additional income tax amounting to ₩107,600 million on March 27, 2006. The assessment resulted from the participation in the capital increase of Hyundai Space and Aircraft Co., Ltd. when Korea was experiencing a foreign currency exchange crisis in the late 1990s. The National Tax Service ruled this capital increase to be unfair financial support for the insolvent affiliate. The Company's appeal to the National Tax Tribunal was dismissed, but was partially successful. On April 27, 2009, the Company filed administrative litigation. However, the Company lost the first trial on January 5, 2011 and appealed on January 25, 2011. In relation to the intermediate appeal, the Company partially won the litigation on February 15, 2013 for the settlement of the claim amounting to ₩52,700 million. However, the Company and the National Tax Service did not accept the Court's decision and filed appeals on February 27, 2013 and February 28, 2013, respectively.
- (2) In connection with orders for submarine pipeline and equipment installation construction from PTT Public Company Limited. ("PTT") on June 25, 2011, the Company engaged subcontractor ("Britoil") that owned a tugboat. While the tugboat was moving a barge, for reasons unknown, an existing gas pipeline owned by PTT, was damaged resulting in a gas leak. At the request of the PTT, the Company worked on recovery and repair, which was completed in October 2011, and billed PTT for the cost of repairs. PTT in turn asked for compensations for damages related to the gas leak and loss of gas. The Company and PTT were unable to reach an agreement regarding the cause of accident, amount of damages, contractual limitations of liability, and distribution of insurance proceeds. On June 22, 2012, PTT filed a lawsuit in Thai court claiming damages amounting to USD 143 million against the Company, Britoil and PTT's insurer ("Dhipaya") as a co-defendants. The Company vigorously defended itself against that claim and filed a lawsuit requesting the cost of repairs against PTT on March 28, 2013 and requesting insurance against Dhipaya on February 11, 2013. The Company and PTT are undertaking mediation on the court's guidelines, signed a MOU for the agreement on the December 29, 2014. Currently, the impact on the Company's financial statements, if any, cannot be reliably estimated. Currently, the impact on the Company's separate financial statements, if any, cannot be reliably estimated.
- (3) On January 16, 2009, the Company entered into a long term agreement to buy polysilicon with Woongjin Polysilicon Co.,Ltd. ("WPC"), and paid USD 91 million in advance. WPC halted facilities operation without any notice, and creditor of WPC declared them in default on October 17, 2012. The Company gave notice of the cancellation of a contract to WPC on January 25, 2013, and requested refunds the prepaid payment to Seoul guarantee insurance company ("SGI") that guaranteed refund the repaid payment on February 7, 2013, but SGI did not accepted request for payment. The Company filed a lawsuit in Seoul Central District Court claiming guarantee insurance amounting to USD 91 million against SGI on April 5, 2013. The Company received that amount of money for provisional payment on June 21, 2013. The Company won the first trial on May 1, 2014, and SGI filed appeals on May 20, 2014
- (4) The Company partially lost the first trial of ordinary wage lawsuit (amounting to ₩600 million) on February 12, 2015. The court ruled that the 800% regular bonus should be considered ordinary wage, the ruling would apply retroactively for three years (estimated additional payment: ₩ 629,500 million). The Company appealed in March 2, 2015 and the case is currently pending. The Company did not recognize provision related to lawsuit on the separate financial statements because the Company 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 Company is currently a defendant in 34 lawsuits involving claims totaling: ₩125,000 million. Currently, the impact on the Company's separate financial statements, if any, cannot be reliably estimated. However, management of the Company believes that the ultimate outcomes will not have a significant impact on the Company's operations and financial position.

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

(1) The Company is the ultimate controlling party and its subsidiaries as of December 31, 2014 are as follows:

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

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

42. Related Parties, Continued

- (1) The Company is the ultimate controlling party and its subsidiaries as of December 31, 2013 are as follows, continued:

Company	Main business
Hyundai Construction Equipment Americas, Inc.	Sale of machinery equipment for construction
Hyundai Power Transformers USA, INC	Sale and manufacture of industrial electric equipment
Hyundai Ideal Electric Co.	Sale and manufacture of industrial electric equipment
PHECO Inc.	Design services for offshore facilities
HHI Battery CO., Ltd.	Manufacturing
Hyundai Heavy Industries Brasil - Real Estate Developments	Real estate development
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	Manufacture, trade and repair of heavy equipment
Hyundai Heavy Industries Miraflores Power Plant Inc.	Manufacturing
Vladivostok Business Center	Hotel operation
Hyundai Khorol Agro Ltd.	Agriculture
Hyundai Mikhailovka Agro	Agriculture
Hyundai Electro systems Co., Ltd.	Manufacture of high-voltage circuit breakers
Hyundai Heavy Industries Europe N.V.	Sale of machinery equipment for construction
Hyundai Heavy Industries Co. Bulgaria	Sale and manufacture of transformers
Hyundai Technologies Center Hungary Kft	Research and development of technology
Hyundai Heavy Industries France SAS	Manufacturing
Jahnel-Kestermann Getriebewerke GmbH	Designing and manufacture of gearboxes
JaKe Service GmbH	Gearbox repair
HHI Mauritius Limited	Manufacturing
MS Dandy Ltd.	Ship rental service
Hyundai West Africa Limited	Manufacture of other transport equipment
Hyundai Arabia Company LLC.	Industrial plant construction
Grande Ltd.	Ship rental service

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

(2) Transactions with related parties

1) Significant transactions for the years ended December 31, 2014 and 2013 with related parties are as follows:

(In millions of won)

	2014					
	Sales and other		Purchases and other			
	Sales	Dividend income	Purchase of raw materials	Purchase of property, plant and equipment	Purchase of others	Dividends paid
Subsidiaries:						
Hyundai Samho Heavy Industries Co., Ltd.	₩ 356,555	7,593	179,456	136,304	140	-
Hyundai Mipo Dockyard Co., Ltd.	398,390	-	23,626	-	-	12,126
Hyundai Oilbank Co., Ltd.	62,817	-	131,301	-	415	-
Hyundai Heavy Material Service	7,006	19,980	139,794	424	5,048	-
Hotel Hyundai Co., Ltd.	233	-	36,264	-	2,102	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	33,571	-	-	-	2,008	-
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	29,074	-	2,219	-	1,466	-
Hyundai Heavy Industries (China) Electric Co., Ltd.	5,908	-	66,108	-	-	-
Yantai Hyundai Moon Heavy Industries Co., Ltd.	26	-	80,490	-	7	-
Hyundai Construction Equipment India Private Ltd.	74,021	-	32,359	-	907	-
Hyundai Construction Equipment Americas, Inc.	233,483	-	53	-	4,396	-
Hyundai Ideal Electric Co.	29,472	-	1,218	-	59	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	30,781	-	-	-	2,486	-
Hyundai Heavy Industries Europe N.V.	273,862	-	-	-	4,622	-
Others	15,638	9,150	100,885	-	17,456	-
	₩ 1,550,837	36,723	793,783	136,728	41,112	12,126

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

42. Related Parties, Continued

(2) Transactions with related parties, continued

1) Significant transactions for the years ended December 31, 2014 and 2013 with related parties are as follows, continued:

(In millions of won)

	2014					
	Sales and other		Purchases and other			
	Sales	Dividend income	Purchase of raw materials	Purchase of property, plant and equipment	Purchase of others	Dividends paid
Associates and joint ventures(*):						
Wärtsilä-Hyundai Engine Company Ltd.	₩ 2,971	27,137	118,168	-	-	-
Hyundai Corporation	806,362	2,496	8,030	-	7,217	-
Others	6,256	3,440	25,342	-	11	-
	<u>815,589</u>	<u>33,073</u>	<u>151,540</u>	<u>-</u>	<u>7,228</u>	<u>-</u>
Associates of subsidiaries:						
Hyundai Cosmo Petrochemical Co., Ltd.	-	-	-	-	137	-
	<u>₩ 2,366,426</u>	<u>69,796</u>	<u>945,323</u>	<u>136,728</u>	<u>48,477</u>	<u>12,126</u>

(*) Including associates' subsidiaries

HYUNDAI HEAVY INDUSTRIES CO., LTD.
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For the years ended December 31, 2014 and 2013

42. Related Parties, Continued

(2) Transactions with related parties, continued

1) Significant transactions for the years ended December 31, 2014 and 2013 with related parties are as follows, continued:

(In millions of won)

	2013					
	Sales and other		Purchases and other			
	Sales	Dividend income	Purchase of raw materials	Purchase of property, plant and equipment	Purchase of others	Dividends paid
Subsidiaries:						
Hyundai Samho Heavy Industries Co., Ltd.	₩ 402,036	9,492	4,039	57,779	230	-
Hyundai Mipo Dockyard Co., Ltd.	359,736	-	20,543	19	4	15,158
Hyundai Oilbank Co., Ltd.	56,527	-	79,875	-	1,245	-
Hyundai Heavy Material Service	6,333	-	354,804	30,633	7,777	-
Hotel Hyundai Co., Ltd.	209	-	34,545	1	2,278	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	81,289	-	-	-	660	-
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	65,548	-	-	-	264	-
Hyundai Heavy Industries (China) Electric Co., Ltd.	6,699	-	63,965	-	-	-
Yantai Hyundai Moon Heavy Industries Co., Ltd.	104	-	66,453	-	13	-
Hyundai Construction Equipment India Private Ltd.	58,519	-	11,901	-	1,324	-
Hyundai Construction Equipment Americas, Inc.	424,429	-	5	-	3,697	-
Hyundai Ideal Electric Co.	25,721	-	1,234	-	442	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	160,697	-	4	-	122	-
Hyundai Heavy Industries Europe N.V.	270,243	-	823	-	5,583	-
Others	20,280	9,703	100,491	-	20,572	-
	<u>1,938,370</u>	<u>19,195</u>	<u>738,682</u>	<u>88,432</u>	<u>44,211</u>	<u>15,158</u>
Associates and joint ventures(*):						
Wärtsilä-Hyundai Engine Company Ltd.	3,158	6,611	110,923	-	-	-
Hyundai Corporation	924,901	2,496	7,733	-	5,099	-
Others	8,951	200	-	-	36	-
	<u>937,010</u>	<u>9,307</u>	<u>118,656</u>	<u>-</u>	<u>5,135</u>	<u>-</u>
Associates of subsidiaries:						
Hyundai Cosmo Petrochemical Co., Ltd.	43,307	-	-	-	-	-
	<u>₩ 2,918,687</u>	<u>28,502</u>	<u>857,338</u>	<u>88,432</u>	<u>49,346</u>	<u>15,158</u>

(*) Including associates' and joint ventures subsidiaries

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42. Related Parties, Continued

(2) Transactions with related parties, continued

2) Outstanding balances for the years ended December 31, 2014 and 2013 with related parties are as follows:

(In millions of won)

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

(*) Including associates' and joint ventures subsidiaries

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

- (2) Transactions with related parties, continued
2) Outstanding balances for the years ended December 31, 2014 and 2013 with related parties are as follows, continued:

(In millions of won)

	2013			
	Trade receivables and other receivables		Trade payables and other payables	
	Trade receivables	Other receivables	Trade payables	Other payables
Subsidiaries:				
Hyundai Samho Heavy Industries Co., Ltd.	₩ 107,583	37,375	25,952	49,970
Hyundai Mipo Dockyard Co., Ltd.	111,629	310	2,369	70,144
Hyundai Oilbank Co., Ltd.	6,045	-	20,324	4,864
Hyundai Heavy Material Service	1,492	2,228	37,615	-
Hotel Hyundai Co., Ltd.	11	-	1,931	-
Hyundai (Jiangsu) Construction Machinery Co., Ltd.	24,795	372	-	24
Beijing Hyundai Jingcheng Construction Machinery Co., Ltd.	21,487	329	-	10
Hyundai Heavy Industries (China) Electric Co., Ltd.	35	3,041	4,007	-
Yantai Hyundai Moon Heavy Industries Co., Ltd.	4	58,025	-	-
Hyundai Construction Equipment India Private Ltd.	39,178	294	172	176
Hyundai Construction Equipment Americas, Inc.	120,264	121	-	345
Hyundai Ideal Electric Co.	10,381	10	35	-
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	193,530	530	-	45
Hyundai Heavy Industries Europe N.V..	68,036	56	349	1,114
Others	10,412	3,585	5,615	2,315
	<u>714,882</u>	<u>106,276</u>	<u>98,369</u>	<u>129,007</u>
Associates and joint ventures(*):				
Wärtsilä-Hyundai Engine Company Ltd.	1,024	35,063	-	-
Hyundai Corporation	223,529	143	35	35,637
Others	1,473	1,320	-	10,225
	<u>226,026</u>	<u>36,526</u>	<u>35</u>	<u>45,862</u>
Associates of subsidiaries:				
Hyundai Cosmo Petrochemical Co., Ltd.	163	-	-	-
	<u>₩ 941,071</u>	<u>142,802</u>	<u>98,404</u>	<u>174,869</u>

HYUNDAI HEAVY INDUSTRIES CO., LTD.

Notes to the Separate Financial Statements

For the years ended December 31, 2014 and 2013

(*) Including associates' and joint ventures subsidiaries

42. Related Parties, Continued

- (3) Details of guarantees which the Company had provided for related parties as of December 31, 2014 are as follows:

(In thousands of foreign currency)

Guarantee recipient	Provider	Type of guarantees	Currency	Guaranteed Amount
Subsidiaries:				
Hyundai (Shandong) Heavy Industry Machinery Co., Ltd.	Standard Chartered Bank	Payment	USD	15,600
Weihai Hyundai Wind Power Technology Co., Ltd.	Export-Import Bank of Korea	Payment	USD	15,000
Hyundai Construction Equipment India Pvt. Ltd.	Standard Chartered Bank and others	Payment	USD	32,000
Hyundai Construction Equipment Americas, Inc.	HSBC Bank Plc	Payment	INR	2,000,000
Hyundai Power Transformers USA, INC	Hana Bank and others	Payment	USD	73,400
	Woori Bank and others	Payment	USD	109,000
	Liberty Mutual	Performance	USD	20,000
	Capine Corporation	Performance	USD	19,839
Hyundai Ideal Electric Co.	Mizuho Corporate Bank Ltd, LA Branch	Payment	USD	10,000
Hyundai Heavy Industries Brasil - Manufacturing and Trading of Construction Equipment	Banco Nacional de Desenvolvimento Economico e Social (BNDES)	Payment	BRL	109,956
	Standard Chartered Bank	Payment	USD	30,000
Hyundai Heavy Industries Europe N.V..	Korea Exchange Bank and others	Payment	EUR	34,500
	BNP Paribas Fortis Bank, Belgium	Performance	EUR	250
Hyundai Heavy Industries Co. Bulgaria	BNP Paribas S.A., Sofia and others	Payment	USD	50,000
Jahnel-Kestermann Getriebewerke GmbH	Shinhan Bank	Payment	EUR	75,600
Hyundai Heavy Industries France SAS	Export-Import Bank of Korea and others	Performance	USD	250,194
HHI Mauritius Limited	Export-Import Bank of Korea and others	Performance	USD	43,211
Hyundai Arabia Company LLC.	Korea Exchange Bank	Payment	USD	6,000
	Korea Exchange Bank and others	Performance	USD	51,073
			USD	725,317
			EUR	110,350
			INR	2,000,000
			BRL	109,956

Other than the guarantees above, the Company has provided performance guarantees in relation to Jazan Refinery and Terminal Project Package 2 (contract amount: USD 286,806 thousand) which is being built by Hyundai Arabia Company LLC., one of the Company's subsidiaries. The Company also provided performance guarantees in relation to Moho Nord Tension Leg Platform Project (contract amount: USD 789,882 thousand, EUR 45,296 thousand) and Moho Nord Floating Production Unit Project (contract amount: USD 1,220,610 thousand) which are being built by HHI France SAS and HHI Mauritius Ltd., one of the Company's subsidiaries.

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

(4) As of December 31, 2014, the Company provided guarantees to related parties as follows

(In millions of won)

<u>Guarantee</u>	<u>Guaranteed asset</u>	<u>Book value</u>	<u>Guaranteed amount</u>	<u>Provider</u>
Associates				
Pyeongchang Wind Power Co., Ltd.	Investment in Associates - Pyeongchang Wind Power Co., Ltd.	₩ 3,566	79,200	Woori Bank and others

(5) Compensation for key management of the Company for the years ended December 31, 2014 and 2013 is ₩3,397 million and ₩3,607 million, respectively. Key management is defined as directors and internal auditors who have important rights and responsibilities involving the planning, operation and control of the Company.

43. Subsequent Events

The Company integrated Offshore & Engineering Division and Plant Division in January, 2015 and performed a voluntary retirement. This content is in progress, it is not possible to estimate the effect on the financial statements as reasonable.

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2014 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Stock Companies of the Republic of Korea.

Independent Auditors' Review Report on Internal Accounting Control System

English translation of a Report Originally Issued in Korean

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

We have reviewed the accompanying Reports on the Operations of Internal Accounting Control System ("IACS") of Hyundai Heavy Industries (the "Company") as of December 31, 2014. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

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

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

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2014 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2014. We did not review the Company's IACS subsequent to December 31, 2014. This report has been prepared for Korea regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

March 19, 2015

Report on the Operations of Internal Accounting Control System

English translation of a Report Originally Issued in Korean

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

I, as the Internal Accounting Control Officer (“IACO”) of Hyundai Heavy Industries Co., Ltd. (the “Company”), have assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) as of December 31, 2014.

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

Based on the assessment of the operations of the IACS, the Company’s IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS Framework issued by the IACS Operations Committee.

Cha, Dong Chan
Internal Accounting Control Officer

Kwon, Oh Gap
Chief Executive Officer

February 12, 2015

Report on the Operations of Internal Accounting Control System

English translation of a Report Originally Issued in Korean

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

I, as the Internal Accounting Control Officer ("IACO") of Hyundai Heavy Industries Co., Ltd. (the "Company"), have assessed the status of the design and operations of the Company's internal accounting control system ("IACS") as of December 31, 2014.

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

Based on the assessment of the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2014, in all material respects, in accordance with the IACS Framework issued by the IACS Operations Committee.

Cha, Dong Chan
Internal Accounting Control Officer

Kwon, Oh Gap
Chief Executive Officer

March 5, 2015