

# **Hyosung Corporation**

**Separate Financial Statements  
December 31, 2016 and 2015**

**(Attachment) Independent Auditor's Report**

**Hyosung Corporation**  
**Index**  
**December 31, 2016 and 2015**

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## Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of  
Hyosung Corporation

We have audited the accompanying separate financial statements of Hyosung Corporation (the "Company"), which comprise the separate statements of financial position as at December 31, 2016 and 2015, and the separate statements of profit or loss, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibilities for the Financial Statements***

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

### ***Auditor's Responsibilities***

Our responsibility is to express an opinion on the separate financial statements based on our audits. We conducted our audits in accordance with the 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 the auditor's 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, the auditor considers 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 accompanying separate financial statements present fairly, in all material respects, the separate financial position of Hyosung Corporation as at December 31, 2016 and 2015, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean IFRS.

**Emphasis Matters<sup>1</sup>**

Without qualifying our opinion, we draw attention to the following area of focus.

Area of focus on construction contracts in accordance with the Practical Guidance of Auditing Standard 2016-1 are those matters that, in the auditor's professional judgment and communication with those charged with governance, were of most significance in the audit of the separate financial statements of the current period. These matters were addressed in the context of the audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have addressed the output of the audit process for the area of focus as below in forming an audit opinion on the separate financial statements of Hyosung Corporation as a whole.

**A. General Information**

Common information applied to the area of focus on construction contract described in this audit report are as follows:

As explained in the Note 2 to the separate financial statements (Significant Accounting Policies), the Company recognizes contract revenue and contract costs associated with the construction contract as revenue and expense respectively based on the percentage of completion of the contract activity at the end of the reporting period when the outcome of a construction contract can be estimated reliably. The percentage of completion of the contract activity is the proportion that costs incurred to date, excluding any contract cost that does not reflect the work performed, bear to the estimated total costs of the contract. The Company presents the gross amount due from customer for contract work as an asset for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings, and presents the gross amount due to customers for contract work as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses). The Company's operating segments which apply accounting policies of construction contract are Construction and part of Heavy industrial.

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<sup>1</sup> This paragraph is being included in accordance with the Practical Guidance of Auditing Standard 2016-1, Practical Guidance for Special Consideration in Auditing Construction Contracts, prescribed by Korean Institute of Certified Public Accountants, and should not be considered as a communication of key audit matter described in the International Standards on Auditing 700 (Revised).

## B. Revenue recognition based on the input method

As explained in the Note 3 to the separate financial statements (Critical Accounting Estimates and Assumptions), total contract revenue is measured based on the initial amount of revenue agreed in the contract. However, the measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future event; for example, the amount of contract revenue may increase as a result of variations in contract work, claims and inventive payments, on the other hand, the amount of contract revenue may decrease as a result of penalties arising from delays caused by the Company in the completion of the contract. The measurement of contract revenue is also affected by the percentage of completion measured based on the aggregated amount costs incurred. Total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others.

The Company determined that unexpected increase of estimated total contract costs will result from the progress of certain overseas projects included in Heavy industrial segment. As explained in Note 31 to the separate financial statements (Construction Contracts), for the year ended December 31, 2016, the changes in estimated total contract revenue and cost amount to ~~¥~~ 4,405 million and ~~¥~~ 2,869 million respectively in the Heavy industrial segment. Due to these changes, the profit or loss for the current period has decreased by ~~¥~~ 3,166 million, and the profit or loss for the succeeding year is estimated to increase by ~~¥~~ 4,702 million. The changes in estimated total contract revenue and costs may have negative impacts on the profit or loss for the current period (or for the succeeding year); therefore, we identified revenue recognition based on the input method as a significant risk.

As at December 31, 2016, in respect of the Company's revenue recognition based on the input method, we have performed the following audit procedures.

- We assessed whether the accounting policy for revenue recognition is appropriate.
- We inquired about current progress of major projects and identified any significant changes at the end of the reporting period, and reviewed major contract terms and conditions.
- We reviewed the Company's internal control over reviews and approvals of new contracts by personnel with appropriate authority.
- We performed analytical review procedures on major financial ratios such as contract amount, estimated cost, rate of cost of sales, rate of due from customer etc.

## C. Uncertainty of estimated total contract costs (or estimated construction costs)

As explained in the Note 3 to the separate financial statements (Critical Accounting Estimates and Assumptions) and in the Note 31 to the separate financial statements (Construction Contracts), total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others. When the estimated total contract costs increases by 5%, profit before income tax and net assets before income tax effects would decrease by ~~¥~~ 131,228 million.

The measurement of estimated contract costs is affected by variety of uncertainties such as changes in the specifications or design, changes in construction environment, the extension of construction period, fluctuation of material cost, and others. The impacts of changes in estimated total contract costs on the profit or loss for the current period (or for the succeeding year) are considered; therefore, we identified uncertainty of estimated total contract costs as a significant risk.

As at December 31, 2016, in respect of the Company's uncertainty of estimated total contract costs, we have performed the following audit procedures.

- We checked whether there were final approvals of the total estimated contract costs and compare the amounts with the total contract cost in the Company's Financial Information Systems.
- We validated the reliability of raw data used for the estimation of total contract costs.
- We compared the rate of cost of sales of each construction contracts to those with similar nature, and made inquiries and performed analytical review procedures to determine rationality of estimated construction costs.

#### D. Measurement of percentage of completion

The construction costs incurred of one site can be transferred to another site due to the variance in profit margins of sites and the identified factors causing the increase in the estimation of contract costs may not be reflected in the contract costs timely; therefore, we identified measurement of percentage of completion as a significant risk.

As at December 31, 2016, in respect of the Company's estimated total contract costs and aggregated cost incurred that have impacts on the measurement of percentage of completion, we have performed the following audit procedures.

- We tested the completeness of the costs incurred and appropriate attribution of accumulated costs incurred to corresponding construction sites.
- We reviewed the accounting slips prepared for the transfer of incurred expenses between construction sites.
- We independently tested the occurrence, cut-off of constructions cost and also tested whether construction costs are attributed to the corresponding construction sites by checking external evidences.
- We independently recalculated the percentage of completion for construction contracts.
- We tested internal control of the Company in relation to approval and reporting process of cost incurred by each construction site.

#### E. Collectability of the gross amount due from customers for contract work

As the collectability of the gross amount due from customers for contract work is in doubt in case of the increase of unsold housing due to the real estate market situation or the deterioration of the financial condition of customers, we identified collectability of the gross amount due from customers for contract work as a significant risk.

As at December 31, 2016, in respect of the contact that has a significant increase in the gross amount due from customers for contract work, we have performed the following audit procedures.

- We identified contacts with significant differences between percentage of completion for accounting purpose and actual construction billing ratio in accordance with contractual right to demand for payment, and inquired about reasons of delays in billings and tested based on external evidences.
- We performed impairment test for the contracts with uncertainties in collectability.

#### F. Accounting treatment regarding variations in contract work

As explained in Note 3 to the consolidated/separate financial statements (Critical Accounting Estimates and Assumptions), as at December 31, 2016, the Company measures total contract revenue at the initial amount of revenue agreed in the contract; however, the measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events such as increase in contract revenue due to variations in contract work, claims and incentive payment; or decrease contract revenue as a result of penalties arising from delay caused by the Company in the completion of the contract. A variation is included in contract revenue when the amount of revenue can be reliably measured.

As explained in the Note 31 to the separate financial statements (Construction Contracts), changes in total contract revenue have occurred and while the total contract price is increased due to changes in specifications, estimated construction costs may not be timely updated. Accordingly there are risk of misstatements in contract revenue; therefore, we identified accounting treatment regarding variations in contract work as a significant risk.

As at December 31, 2016, in respect of accounting treatment regarding variations in contract work, we have performed the following audit procedures.

- We inquired about the Company's accounting policy for accounting treatment regarding variations in contract work and penalties.
- In respect of construction contracts with changes in terms and conditions, we performed reconciliation for total contract revenue based on the Company's Financial Information Systems and external evidences.
- We determined whether additional contract cost estimated based on the variation in the contract has been reflected in measurement of estimated total contract cost and percentage of completion.

***Other Matter***

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea

March 9, 2017

This report is effective as of March 9, 2017, 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 there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**(Attachment) Separate Financial Statements**

**Hyosung Corporation**

**The 62<sup>th</sup> period**

From January 1<sup>st</sup>, 2016 to December 31<sup>st</sup>, 2016

**The 61<sup>th</sup> period**

From January 1<sup>st</sup>, 2015 to December 31<sup>st</sup>, 2015

"The attached separate financial statements were completed by the Company."

CEO Sang-Woon Lee of Hyosung Corporation

The seat of headquarter :	Road name address	119 Mapo-daero, Mapo-gu, Seoul, Korea.
	Phone number	(02) 707-7000

**Hyosung Corporation**  
**Separate Statements of Financial Position**  
**December 31, 2016 and 2015**

(in millions of Korean won)

	Notes	2016	2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4, 8, 9, 10	₩ 40,667	₩ 22,006
Trade and other receivables	4, 7, 8, 11, 21, 40	807,132	896,135
Due from customers for contract work	4, 8, 31	113,857	75,509
Other financial assets	4, 5, 8, 12	6,964	111
Other current assets	13	93,889	100,836
Inventories	14, 18	588,657	599,928
		<u>1,651,166</u>	<u>1,694,525</u>
<b>Non-current assets</b>			
Long-term trade and other receivables	4, 8, 11, 21	285,456	253,993
Property, plant and equipment	15, 18, 19, 40	3,330,048	3,368,749
Investment property	16	468,772	460,065
Intangible assets	17	84,092	93,790
Investments in subsidiaries and associates	20, 40	1,584,669	1,585,531
Other non-current financial assets	4, 5, 8, 10, 12, 40	246,585	266,045
Other non-current assets	13	29,481	23,735
		<u>6,029,103</u>	<u>6,051,908</u>
<b>Total assets</b>		<u>₩ 7,680,269</u>	<u>₩ 7,746,433</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	4, 8, 19, 21, 22, 40	₩ 1,170,858	₩ 1,004,443
Due to customers for contract work	31	91,981	102,311
Borrowings	4, 8, 23	1,248,896	1,682,270
Other financial liabilities	4, 5, 8, 12	29,534	24,815
Current tax liabilities		124,486	25,484
Other current liabilities	26, 31	218,502	147,697
		<u>2,884,257</u>	<u>2,987,020</u>
<b>Non-current liabilities</b>			
Long-term trade and other payables	4, 8, 19, 21, 22	57,992	61,997
Long-term borrowings	4, 8, 23	1,069,208	1,393,523
Other non-current financial liabilities	4, 5, 8, 12	6,467	11,199
Post-employment benefit obligation	24	31,664	20,390
Deferred tax liabilities	25	158,156	232,521
Other non-current liabilities	26, 40	55,309	49,336
		<u>1,378,796</u>	<u>1,768,966</u>
<b>Total liabilities</b>		<u>4,263,053</u>	<u>4,755,986</u>
<b>Equity</b>			
Share capital	27	175,587	175,587
Share premium		130,826	130,826
Retained earnings	28	2,799,403	2,378,108
Other components of equity	29	311,400	305,926
<b>Total equity</b>		<u>3,417,216</u>	<u>2,990,447</u>
<b>Total liabilities and equity</b>		<u>₩ 7,680,269</u>	<u>₩ 7,746,433</u>

The above separate statements of financial position should be read in conjunction with the accompanying notes.

**Hyosung Corporation**  
**Separate Statements of Profit or Loss**  
**Years Ended December 31, 2016 and 2015**

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*(in millions of Korean won, except per share amounts)*

	<b>Notes</b>	<b>2016</b>	<b>2015</b>
<b>Revenue</b>	6, 21, 30, 31	₩ 7,974,341	₩ 8,033,110
<b>Cost of sales</b>	21, 31, 32, 33	<u>(6,614,455)</u>	<u>(6,850,173)</u>
<b>Gross profit</b>		1,359,886	1,182,937
Selling and administrative expenses	21, 32, 33, 34	(635,359)	(608,890)
Research and development expenses	32, 33	<u>(91,335)</u>	<u>(100,697)</u>
<b>Operating profit</b>	6	633,192	473,350
Other income	8, 21, 35	247,523	198,419
Other expenses	8, 21, 35	(106,101)	(90,986)
Other income (expenses), net		141,422	107,433
Finance income	8, 21, 36	292,162	274,138
Finance expenses	8, 36	(412,324)	(452,249)
Finance income (expenses), net		(120,162)	(178,111)
Impairment loss on investment in subsidiaries and associates	20	<u>(29,212)</u>	<u>(26,399)</u>
Profit before income tax		625,240	376,273
Income tax expense	25	<u>(86,868)</u>	<u>(58,547)</u>
<b>Profit for the period</b>		<u>₩ 538,372</u>	<u>₩ 317,726</u>
<b>Basic earnings per share</b>	37	₩ 16,183	₩ 9,550

The above separate statements of profit or loss should be read in conjunction with the accompanying notes.

**Hyosung Corporation**  
**Separate Statements of Comprehensive Income**  
**Years Ended December 31, 2016 and 2015**

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(in millions of Korean won)

	Notes	2016	2015
<b>Profit for the period</b>		₩ 538,372	₩ 317,726
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liability	24	(637)	(16,684)
<i>Items that may be subsequently reclassified to profit or loss</i>			
Changes in the fair value of available-for-sale financial assets	12,29	8,946	33,095
Reclassification due to disposal of available-for-sale financial assets	12,29	(3,131)	-
Exchange differences	29	(341)	1,149
<b>Other comprehensive income for the period, net of tax</b>		4,837	17,560
<b>Total comprehensive income for the period</b>		₩ 543,209	₩ 335,286

The above separate statements of comprehensive income should be read in conjunction with the accompanying notes.

**Hyosung Corporation**  
**Separate Statements of Changes in Equity**  
**Years Ended December 31, 2016 and 2015**

<i>(in millions of Korean won)</i>	Notes	Share capital	Share premium	Retained Earnings	Other Components of Equity	Total
<b>Balance at January 1, 2015</b>		₩ 175,587	₩ 130,826	₩ 2,143,603	₩ 271,682	₩ 2,721,698
<b>Total comprehensive income</b>						
Profit for the period		-	-	317,726	-	317,726
Change in value of available-for-sale financial assets		-	-	-	33,095	33,095
Remeasurements of net defined benefit liability		-	-	(16,684)	-	(16,684)
Exchange differences		-	-	-	1,149	1,149
<b>Transactions with owners</b>						
Dividends paid	38	-	-	(66,537)	-	(66,537)
<b>Balance at December 31, 2015</b>		<u>₩ 175,587</u>	<u>₩ 130,826</u>	<u>₩ 2,378,108</u>	<u>₩ 305,926</u>	<u>₩ 2,990,447</u>
<b>Balance at January 1, 2016</b>		<u>₩ 175,587</u>	<u>₩ 130,826</u>	<u>₩ 2,378,108</u>	<u>₩ 305,926</u>	<u>₩ 2,990,447</u>
<b>Total comprehensive income</b>						
Profit for the period		-	-	538,372	-	538,372
Change in value of available-for-sale financial assets		-	-	-	8,946	8,946
Reclassification due to disposal of available-for-sale financial assets		-	-	-	(3,131)	(3,131)
Remeasurements of net defined benefit liability		-	-	(637)	-	(637)
Exchange differences		-	-	-	(341)	(341)
<b>Transactions with owners</b>						
Dividends paid	38	-	-	(116,440)	-	(116,440)
<b>Balance at December 31, 2016</b>		<u>₩ 175,587</u>	<u>₩ 130,826</u>	<u>₩ 2,799,403</u>	<u>₩ 311,400</u>	<u>₩ 3,417,216</u>

The above separate statements of changes in equity should be read in conjunction with the accompanying notes.

**Hyosung Corporation**  
**Separate Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

<i>(in millions of Korean won)</i>	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Cash generated from operations	39	₩ 1,154,431	₩ 769,228
Income taxes paid		(63,885)	(88,355)
Interest paid		(86,681)	(97,768)
Interest received		877	2,536
Dividends received		189,810	132,765
<b>Net cash inflow from operating activities</b>		<u>1,194,552</u>	<u>718,406</u>
<b>Cash flows from investing activities</b>			
Decrease in loans		22,054	23,471
Proceeds from sale of short-term financial Instruments		7	-
Proceeds from sale of available-for-sale financial assets		48,169	1,773
Decrease in long-term deposits provided		5,408	7,694
Proceeds from sale of property, plant and equipment		8,437	18,086
Government grants received		1,269	1,252
Proceeds from sale of investment property		5,416	20,175
Proceeds from sale of intangible assets		5,542	436
Proceeds from sale of investment in subsidiaries and associates		1,639	57,703
Proceeds from sale of non current assets held for sale		-	25,965
Increase in short-term loans		(46,148)	(15,636)
Payments for available-for-sale financial assets		(8,333)	(55,321)
Increase in long-term loans		(39,676)	(57,820)
Increase in long-term deposits provided		(9,029)	(25,409)
Payments for property, plant and equipment		(276,183)	(346,720)
Payments for investment property		(4,326)	(9)
Payments for intangible assets		(4,848)	(7,920)
Payment for acquisition of subsidiaries and associates, net of cash acquired		(5,850)	(96,826)
Payments for long-term financial instruments		(2,413)	(1,140)
Payments for other investments		(160)	(39)
<b>Net cash outflow from investing activities</b>		<u>(299,025)</u>	<u>(450,285)</u>
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		5,989,480	5,559,689
Proceeds from long-term borrowings		184,395	280,832
Proceeds from issuance of debentures		348,867	426,852
Government grants received		2,598	3,520
Repayment of short-term borrowings		(6,371,093)	(6,037,871)
Repayment of current portion of long-term borrowings		(813,540)	(460,766)
Repayment of long-term borrowings		(100,000)	(6,034)
Repayment of government grants		(1,133)	(11,632)
Dividends paid		(116,440)	(66,537)
<b>Net cash outflow from financing activities</b>		<u>(876,866)</u>	<u>(311,947)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		18,661	(43,826)
<b>Cash and cash equivalents at the beginning of the financial year</b>		22,006	65,832
<b>Cash and cash equivalents at the end of the year</b>		<u>₩ 40,667</u>	<u>₩ 22,006</u>

The above separate statements of cash flows should be read in conjunction with the accompanying notes.

# Hyosung Corporation

## Notes to the Separate Financial Statements

### December 31, 2016 and 2015

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#### 1. General Information

Hyosung Corporation (the "Company") was established on November 3, 1966, and primarily manufactures and sells synthetic fiber products and electronic products, and is engaged in construction, international trade and other related business activities.

As at December 31, 2016, the Company has plants in Ulsan, Anyang, Yongyeon, Gumi, Daegu, Changwon, Daejeon, etc. In addition, the Company has subsidiaries and branches all over the world.

As at December 31, 2016, the Company's major shareholders are Cho Seok-Rae (10.15%), Cho Hyun-Joon (13.80%), and Cho Hyun-Sang (12.21%).

#### 2. Significant Accounting Policies

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

##### 2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with the International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS"). The accompanying separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

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

The preparation of financial statements requires the use of certain critical accounting estimates. Management also needs to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

# Hyosung Corporation

## Notes to the Separate Financial Statements

### December 31, 2016 and 2015

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#### 2.2 Changes in Accounting Policies and Disclosures

##### *(a) New and amended standards adopted by the Company*

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2016. The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

##### - Disclosure Initiative – Amendments to Korean IFRS 1001 Presentation of Financial Statements

Korean IFRS 1001 Presentation of Financial Statements clarifies that materiality applies to the exclusion or inclusion or aggregation of the disclosures in the notes. The amendment clarifies that the share of OCI arising from equity-accounted should be presented in total for items which will and will not be reclassified to profit or loss. Additional amendments are made in relation to a particular order of the notes and other.

##### - *Agriculture: Bearer Plants* – Amendments to Korean IFRS 1016 *Property, Plant and Equipment*, and Korean IFRS 1041 *Agriculture*

Korean IFRS 1041 Agriculture now distinguishes between bearer plants and other biological asset. Bearer plants must be accounted for as Korean IFRS 1016 *Property, Plant and Equipment*.

##### - Clarification of Acceptable methods of Depreciation and Amortization – Amendments to Korean IFRS 1016 Property, Plant and Equipment, and Korean IFRS 1038 Intangible assets

Amendments to Korean IFRS 1016 Property, Plant and Equipment clarify that a revenue-based method should not be used to calculate the depreciation of items of property, plant and equipment. Korean IFRS 1038 *Intangible assets* now includes a rebuttable presumption that the amortization of intangible assets based on revenue is inappropriate. This presumption can be overcome if either; the intangible asset is expressed as a measure of revenue, or it can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

##### - Korean IFRS 1011 *Construction Contract*, Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 2115 *Arrangements for Property Construction*

These standards and interpretation clarify the accounting information disclosure requirement for construction contracts. The accounting estimates and potential risk information of the construction contracts should be disclosed in detail by either individual construction or operating segment.

# Hyosung Corporation

## Notes to the Separate Financial Statements

### December 31, 2016 and 2015

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#### - Amendment to Korean IFRS 1027 *Separate Financial Statements*

Amendment to Korean IFRS 1027 *Separate Financial Statements* requires that the accounting for investments in subsidiaries, jointly controlled entities and associates be accounted for under one of the following methods by each category: at cost, in accordance with the Korean IFRS 1039, or the equity method in Korean IFRS 1028. Because the Company didn't change its accounting policy regarding to the valuation method of investments in subsidiaries, joint ventures and associates, this amendment has no impact on the Company's separate financial statements.

#### - Annual Improvements to Korean IFRS 2012-2014 Cycle

#### *(b) New and amended standards not yet adopted*

Certain new accounting standards and interpretations that have been published that are not mandatory for December 31, 2016 reporting periods and have not been early adopted by the Company are set out below.

#### - Amendments to Korean IFRS 1007 *Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* requires to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows. This amendment will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the consolidated financial statements.

#### - Amendments to Korean IFRS 1012 *Income Tax*

Amendments to Korean IFRS 1012 clarify how *to account* for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice. This amendment will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the consolidated financial statements.

#### - Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarifies accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. And also, clarifies that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. This amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the consolidated financial statements.

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#### - Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 are effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

Korean IFRS 1109 *Financial Instruments* requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

As at December 31, 2016, with the implementation of Korean IFRS 1109, the Company neither prepared for internal management process nor began to adjust accounting system for financial instruments reporting. Also, the Company did not analyze the financial effects of applying the standard. However, the following areas are likely to be affected in general.

#### (a) *Classification and Measurement of Financial Assets*

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

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<i>Business model for the contractual cash flows characteristics</i>	<b>Solely represent payments of principal and interest</b>	<b>All other</b>
<i>Hold the financial asset for the collection of the contractual cash flows</i>	Measured at amortized cost <sup>1</sup>	
<i>Hold the financial asset for the collection of the contractual cash flows and trading</i>	Recognized at fair value through other comprehensive income <sup>1</sup>	Recognized at fair value through profit or loss <sup>2</sup>
<i>Hold for trading</i>	Recognized at fair value through profit or loss	

<sup>1</sup> A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

<sup>2</sup> Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss.

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(b) Impairment: Financial Assets and Contract Assets

Korean IFRS 1109 sets out a new forward looking 'expected loss' impairment model which replaces the incurred loss model under Korean IFRS 1039 that impaired assets if there is an objective evidence and applies to:

- Financial assets measured at amortized cost
- Debt investments measured at fair value through other comprehensive income, and
- Certain loan commitments and financial guaranteed contracts.

Under Korean IFRS 1109 'expected loss' model, a credit event (or impairment 'trigger') no longer has to occur before credit losses are recognized. The Company will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage <sup>1</sup>	Loss allowance
1 No significant increase in credit risk after initial recognition <sup>2</sup>	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2 Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3 Credit-impaired	

<sup>1</sup> A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Company can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

<sup>2</sup> If the financial instrument has low credit risk at the end of the reporting period, the Company may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

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#### - Korean IFRS 1115 Revenue from Contracts with Customers

The Company will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. Earlier adoption is permitted under Korean IFRS. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers*. The Company must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply simplified transition method with no restatement for completed contracts and other as at January 1, 2017.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customer can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

As at December 31, 2016, the Company neither prepared for internal management process nor began to adjust accounting system in relation to implementation of Korean IFRS 1115. Also, the Company did not analyze the financial effects of applying the standard. The Company plans to analyze the financial effects of applying the standard.

### **2.3 Subsidiaries and Associates**

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027, *Separate Financial Statements*. Investments in subsidiaries and associates are recognized at cost under the direct equity method. Management applied the carrying amounts under the previous K-GAAP at the time of transition to the Korean IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries and associates in profit or loss when its right to receive the dividend is established.

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#### 2.4 Foreign Currency Translation

##### *(a) Functional and presentation currency*

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

##### *(b) Transactions and balances*

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

#### 2.5 Financial Assets

##### *(a) Classification and measurement*

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset at its 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 acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss within other income or other expenses. Gains or losses arising from changes in the available-for-sale financial assets are recognized in other comprehensive income, and amounts are reclassified to profit or loss when the associated assets are sold or impaired.

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#### *(b) Impairment*

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

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

The Company considers that there is an objective evidence of impairment if significant financial difficulties of the debtor, or delinquency in interest or principal payments for more than 3 months is indicated. Moreover, in the case of equity investments classified as available-for-sale, a significant decline in the fair value of the security below its cost by more than 50%, or prolonged decline for more than 12 months is considered an objective evidence of impairment.

#### *(c) Derecognition*

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as '(long-term) borrowings' in the statement of financial position (Note 7).

#### *(d) Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the separate statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

## **2.6 Derivative Instruments**

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other income (expenses)' or 'finance income (expenses)' based on the nature of transactions.

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#### 2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method except for in-transit inventories which are determined using the specific identification method.

#### 2.8 Non-current Assets (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

#### 2.9 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	Useful life		Useful life		
Buildings	40	years	Vehicles	5	years
Structures	40	years	Tools and equipment	5	years
Machinery	8 - 10	years			

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

#### 2.10 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

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#### 2.11 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate or are presented in the statement of profit or loss within 'other income'.

#### 2.12 Intangible Assets

Intangible assets are initially recognized at its historical cost and carried at cost less accumulated amortization and accumulated impairment losses.

Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	<b>Useful lives</b>
Industrial rights	5 - 10 years
Facility Usage Rights	10 - 25 years
Other intangible assets	5 years

#### 2.13 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Company depreciates investment properties, except for land, using the straight-line method over their useful lives of 40 years.

#### 2.14 Impairment of Non-financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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#### 2.15 Financial Liabilities

##### *(a) Classification and measurement*

The Company's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as '(long-term) trade and other payables', '(long-term) borrowings', and 'other (non-current) financial liabilities' in the statement of financial position.

##### *(b) Derecognition*

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

#### 2.16 Financial Guarantee Contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of the amount determined in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization in accordance with Korean IFRS1018 *Revenue*, and recognized in the statement of financial position within 'trade and other payables'.

#### 2.17 Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

#### 2.18 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Tax is recognized on the profit for the period in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Company recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, 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. In addition, The Company recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

#### **2.19 Employee Benefits**

The Company operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Company pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Company has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

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Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

#### **2.20 Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal course of the business. Amounts disclosed as revenue are net of value added taxes, returns, rebates and discounts and after elimination of inter-company transactions.

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

##### *(a) Sale of goods*

Sales are recognized when control of the products has transferred, being when the products are delivered to the customer.

##### *(b) Rendering of services*

When the outcome of a rendering of services contract can be estimated reliably, revenue is recognized by reference to the stage of completion. When the outcome of a rendering of services contract cannot be estimated reliably, revenue is recognized only to the extent of costs incurred that are likely to be recoverable.

##### *(c) Royalty income*

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

##### *(d) Interest income*

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

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#### *(e) Dividend income*

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

#### **2.21 Construction Contracts**

A construction contract is defined by Korean IFRS 1011, *Construction Contracts*, as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract by reference to the stage of completion. Contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss on the construction contract is immediately recognized as an expense.

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. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. Contract costs are recognized as an expense in the period in which they are incurred.

The Company uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred during the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. These amounts are recognized as inventory or advance payments.

On the statement of financial position, the Company reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognized profits (less recognized losses) exceed progress billings (due from customers for contract work); a contract represents a liability where the opposite is the case (due to customers for contract work).

Meanwhile, revenue from Housing revenue are recognized by using the percentage-of-completion method according to Q&A of Korea Accounting Institute, 2011-I-KQA. This accounting standard is applicable for Companies that have adopted the Korean IFRS of Laws on External Audit of a Corporation (Article 13, Section 1, Paragraph 1)

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**2.22 Lease**

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Payments made under operating leases are charge to profit or loss on a straight-line basis over the period of lease.

Leases where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost.

If the Company is a lessor, a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership at the inception of the lease. A lease other than a finance lease is classified as an operating lease. Lease income from operating leases is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

**2.23 Segment Reporting**

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief operating decision-maker (Note 6). The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

**2.24 Approval of Issuance of the Financial Statements**

The financial statements 2016 were approved for issue by the Board of Directors on February 17, 2017 and are subject to change with the approval of shareholders at their Annual General Meeting on March 17, 2017.

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**3. Critical Accounting Estimates and Assumptions**

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(a) Income taxes*

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 25).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Company is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

*(b) Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

*(c) Provisions*

As at December 31, 2016, the Company recognizes provisions for warranties and others as explained in Note 26. These provisions are estimated based on past experience.

*(d) Net defined benefit liability*

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 24).

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#### *(e) Uncertainty of the estimated total contract revenue*

Total contract revenue is measured based on contractual amount initially agreed. The contract revenue can be increased by additional contract work, claims and incentive payments in the course of construction, or decreased by the penalty when the completion of contract is delayed due to the Company's fault. Therefore, this measurement of contract revenue is affected by the uncertainty of the occurrence of future events. The change in contract revenue is recognized when it is probable that the customer will approve the increase in revenue due to the changes in contract work, or when it is probable that the Company will be able to satisfy the performance requirements, and the amount can be estimated reliably.

#### *(f) Estimated total contract costs*

Construction revenue is recognized according to the percentage of completion, which is measured on the basis of the gross amount incurred to date. Total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others.

## **4. Financial Risk Management**

### **4.1 Financial Risk Factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize any adverse effects on the financial performance of the Company. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out under policies approved by the steering committee in the board of Directors. The committee reviews and approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### **4.1.1 Market Risk**

##### *(a) Foreign exchange risk*

The Company operates internationally and is exposed to foreign exchange risk arising from foreign currency exposures, primarily with respect to the US dollar, Euro and Japanese yen. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Management has set up a policy to require operations to manage their foreign exchange risk against their functional currency.

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The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

The table below summarizes the impact of weakened/strengthened Korean won on the Company's pre-tax profit for the period. The analysis is based on the assumption that Korean won has weakened/strengthened by 10% with all other variables held constant.

<i>(in millions of Korean won)</i>		<b>Impact on pre-tax profit</b>			
		<b>2016</b>		<b>2015</b>	
USD	Strengthened	₩	(40,074)	₩	(78,331)
	Weakened		40,074		78,331
EUR	Strengthened		(2,202)		(6,827)
	Weakened		2,202		6,827
JPY	Strengthened		(7,836)		(6,977)
	Weakened		7,836		6,977
Others	Strengthened		2,050		1,469
	Weakened		(2,050)		(1,469)

*(b) Price risk*

The Company is exposed to equity securities price risk arises from investments held by the Company that are classified as available-for-sale in the separate statement of financial position.

The Company's equity investments are publicly traded and are included in the KOSPI index.

The table below summarizes the impact of increases/decreases of the stock price on the Company's equity. The analysis is based on the assumption that the stock price has increased/decreased by 30% with all other variables held constant.

<i>(in millions of Korean won)</i>		<b>Impact on equity</b>			
		<b>2016</b>		<b>2015</b>	
Increase		₩	44,237	₩	50,125
Decrease			(44,237)		(50,125)

*(c) Interest rate risk*

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

The Company is exposed to interest rate risk due to its borrowings in fixed and floating interest rates. Company policy is to review on interest rate fluctuation periodically so that they can manage whether to repay or renew the borrowings.

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The table below summarizes the impact of increases/decreases of interest rate on the Company's pre-tax profit for the period. The analysis is based on the assumption that the interest rate has increased/decreased by 1% (100 basis points) with all other variables held constant.

<i>(in millions of Korean won)</i>	<b>Impact on pre-tax profit</b>			
	<b>2016</b>		<b>2015</b>	
Increase	₩	(6,657)	₩	(12,571)
Decrease		6,657		12,571

**4.1.2 Credit Risk**

Credit risk is managed on the Company basis. Credit risk arises from cash and cash equivalents, financial assets and outstanding receivables, etc. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The compliance with credit limits is regularly monitored by line management. See Note 11 for more information about credit risk.

There were no wholesale and retail customers exceeding their credit limits for the period, and management does not expect any losses upon if the above counterparties are in default under the terms of the agreements.

The maximum exposure to credit risk as at December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Cash and cash equivalents <sup>1</sup>	₩	39,930	₩	21,700
Trade and other receivables		807,132		896,135
Due from customers for contract work		113,857		75,509
Other financial assets		6,964		111
Long-term trade and other receivables		285,456		253,994
Other non-current financial assets		246,585		266,045
Financial guarantee contracts		2,703,245		2,724,872

<sup>1</sup> The rest of 'cash and cash equivalents' in the statement of financial position represents cash on hand.

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**4.1.3 Liquidity Risk**

The Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios.

Details of the Company's liquidity risk analysis as at December 31, 2016 and 2015, are as follows:

*(in millions of Korean won)*

	<b>2016</b>			
	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Trade and other payables	₩ 1,167,986	₩ 46,868	₩ 15,835	₩ 1,230,689
Borrowings (including interest expense)	1,295,649	1,102,559	18,717	2,416,925
Derivative financial instruments <sup>1</sup>	36,001	-	-	36,001
Financial guarantees <sup>2</sup>	2,441,745	-	-	2,441,745
PF guarantees <sup>2</sup>	261,500	-	-	261,500
	<u>₩ 5,202,881</u>	<u>₩ 1,149,427</u>	<u>₩ 34,552</u>	<u>₩ 6,386,860</u>

*(in millions of Korean won)*

	<b>2015</b>			
	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Trade and other payables	₩ 999,168	₩ 53,733	₩ 14,299	₩ 1,067,200
Borrowings (including interest expense)	1,740,794	1,448,363	970	3,190,127
Derivative financial instruments <sup>1</sup>	36,015	-	-	36,015
Financial guarantees <sup>2</sup>	2,373,072	-	-	2,373,072
PF guarantees <sup>2</sup>	351,800	-	-	351,800
	<u>₩ 5,500,849</u>	<u>₩ 1,502,096</u>	<u>₩ 15,269</u>	<u>₩ 7,018,214</u>

<sup>1</sup> The Company's trading portfolio derivative instruments have been included at their fair value of ₩ 36,001 million (2015: ₩ 36,015 million) within the less than 1 year time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net fair value basis rather than by maturity date.

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<sup>2</sup> The amount of the above financial guarantees contract is the maximum contractual amount that the Company is obliged to pay if the principal debtor claims the whole amount of guarantees. The possibility of not paying the guarantee is higher than that of paying the guarantee according to the financial guarantee contract based on the estimation as at year-end. However the possibility of principal debtor claiming payment to the Company can change based on changes in financial conditions of the principal debtor.

**4.2 Capital Risk Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so the Company can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

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

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is total borrowings (including 'short and long-term borrowings' as shown in the separate statement of financial position) less cash and cash equivalents. Total capital is 'equity' as shown in the separate statement of financial position plus net debt.

The gearing ratios at December 31, 2016 and 2015 are as follows:

(in millions of Korean won)	<b>2016</b>		<b>2015</b>	
Total borrowings	₩	2,318,105	₩	3,075,792
Less: cash and cash equivalents		(40,667)		(22,006)
Net debt (A)		2,277,438		3,053,786
Total equity (B)		3,417,216		2,990,447
Total capital (A+B=C)	₩	5,694,654	₩	6,044,233
Gearing ratio (A/C)		39.99%		50.52%

**5. Fair Value**

**5.1 Fair Value of Financial Instruments by Category**

Carrying amounts of financial instruments, excluding available-for-sale financial assets that are measured at cost because their fair value cannot be measured reliably (Note 5.2), are similar to their fair values.

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**5.2 Financial Instruments Measured at Cost**

Details of financial instruments measured at cost as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Available-for-sale financial assets				
OKSAN OCHANG Highway Corporation	₩	14,970	₩	14,970
TransLink Capital Partners 1, L.P. <sup>1</sup>		1,364		2,022
The Korea Economic Daily		1,354		1,354
Kumho & Company Incorporation		10,000		10,000
Hyosung Creative Economy Fund		10,000		5,000
Doosan Capital Co., Ltd. <sup>2</sup>		537		1,355
AXIA Materials Co. Ltd		1,053		1,053
Construction Guarantee Cooperative		3,319		3,319
Machinery Financial Cooperative		3,300		3,300
Carbon growth fund		1,500		-
Government bonds		688		162
Investment and others		1,904		1,698
	<u>₩</u>	<u>49,989</u>	<u>₩</u>	<u>44,233</u>

The above equity instruments are measured at cost because they do not have quoted prices in an active market and their fair value cannot be measured reliably. The Company has no intention to dispose of the aforementioned financial instruments in the near future. These equities will be measured at fair value when the Company can develop a reliable estimate of the fair value.

<sup>1</sup> The Company recognized loss on impairment of equity instruments of TransLink Capital Partners 1, L.P. amounting to ₩ 658 million in the separate statements of income, because the Company judged that objective evidence of impairment has occurred in relation to equity instruments of TransLink Capital Partners 1, L.P.

<sup>2</sup> The Company recognized loss on impairment of equity instruments of Doosan Capital Co., Ltd. amounting to ₩ 818 million in the separate statements of income, because the Company judged that objective evidence of impairment has occurred in relation to equity instruments of Doosan Capital Co., Ltd..

**5.3 Fair Value Hierarchy**

Items that are measured at fair value or for which the fair value is disclosed are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

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Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	<b>2016</b>			
	<b>Level 1</b>	<b>Level 2<sup>1</sup></b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Available-for-sale financial assets	₩ 194,532	₩ -	₩ -	₩ 194,532
Derivative financial assets	-	5,126	-	5,126
	<u>₩ 194,532</u>	<u>₩ 5,126</u>	<u>₩ -</u>	<u>₩ 199,658</u>
<b>Liabilities</b>				
Derivative financial liabilities	₩ -	₩ 36,001	₩ -	₩ 36,001
	<u>₩ -</u>	<u>₩ 36,001</u>	<u>₩ -</u>	<u>₩ 36,001</u>

(in millions of Korean won)

	<b>2015</b>			
	<b>Level 1</b>	<b>Level 2<sup>1</sup></b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Available-for-sale financial assets	₩ 220,427	₩ -	₩ -	₩ 220,427
Derivative financial assets	-	-	-	-
	<u>₩ 220,427</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 220,427</u>
<b>Liabilities</b>				
Derivative financial liabilities	₩ -	₩ 36,015	₩ -	₩ 36,015
	<u>₩ -</u>	<u>₩ 36,015</u>	<u>₩ -</u>	<u>₩ 36,015</u>

<sup>1</sup> The Company uses valuation techniques of market approach in the fair value of derivative financial instruments that categorized within Level 2 and uses inputs; such as, exchange rate and others.

**5.4 Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements**

There were no transfers between fair value hierarchy levels of recurring fair value measurements for the year ended December 31, 2016 and 2015.

However, the Company transferred equity instruments of Doosan Capital Co., Ltd. of which carrying amount was ₩ 1,355 million as at December 31, 2015 from Level 3 of the fair value hierarchy to financial instruments measured at cost for the year ended December 31, 2015, this is because their estimated cash flows cannot be measured reliably due to continuous net loss.

**6. Operating Segment Information**

The management which makes strategic decisions has determined the operating segments. The management makes strategic decisions on allocation of resources to segments and assesses the performance of operating segments based on the operating profit. The management categorizes the product into fabric, industrial materials, chemicals, heavy industrial, construction, trading and others.



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**7. Transfer of Financial Assets**

Under factoring arrangement, the Company sells trade receivables at a discount to the financial institutions for the periods ended December 31, 2016 and 2015. The Company may retain an obligation to compensate a financial institution for debtors' failure to make payment when they become due, an obligation known as a 'recourse obligation'. Recourse obligations related to the sales of receivables with recourse are accounted for as collateralized borrowings (Notes 11, 23 and 40).

Details of transferred financial assets that are not derecognized in their entirety as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Loans and receivables				
Carrying amount of assets	₩	174,312	₩	196,250
Carrying amount of the associated liabilities		(174,312)		(196,250)
Net position		-		-

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**8. Financial Instruments by Category**

**8.1 Carrying Amounts of Financial Instruments by Category**

Categorizations of financial assets and liabilities as at December 31, 2016, are as follows:

*(in millions of Korean won)*

	<b>2016</b>			
	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Derivative financial assets</b>	<b>Total</b>
Cash and cash equivalents	₩ 40,667	₩ -	₩ -	₩ 40,667
Trade and other receivables	807,132	-	-	807,132
Due from customers for contract work	113,857	-	-	113,857
Other financial assets	2,304	-	4,660	6,964
Long-term trade and other receivables	285,456	-	-	285,456
Other non-current financial assets	1,598	244,521	466	246,585
	<u>₩ 1,251,014</u>	<u>₩ 244,521</u>	<u>₩ 5,126</u>	<u>₩ 1,500,661</u>

*(in millions of Korean won)*

	<b>2016</b>			
	<b>Financial liabilities at amortized cost</b>	<b>Other financial liabilities</b>	<b>Derivative financial liabilities</b>	<b>Total</b>
Trade and other payables	₩ 1,165,766	₩ 5,092	₩ -	₩ 1,170,858
Borrowings	1,074,584	174,312	-	1,248,896
Other financial liabilities	-	-	29,534	29,534
Long-term trade and other payables	57,992	-	-	57,992
Long-term borrowings	1,069,208	-	-	1,069,208
Other non-current financial liabilities	-	-	6,467	6,467
	<u>₩ 3,367,550</u>	<u>₩ 179,404</u>	<u>₩ 36,001</u>	<u>₩ 3,582,955</u>

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Categorizations of financial assets and liabilities as at December 31, 2015, are as follows:

*(in millions of Korean won)*

	<b>2015</b>			
	<b>Loans and receivables</b>	<b>Available-for-sale financial assets</b>	<b>Derivative financial assets</b>	<b>Total</b>
Cash and cash equivalents	₩ 22,006	₩ -	₩ -	₩ 22,006
Trade and other receivables	896,135	-	-	896,135
Due from customers for contract work	75,509	-	-	75,509
Other financial assets	7	104	-	111
Long-term trade and other receivables	253,994	-	-	253,994
Other non-current financial assets	1,490	264,555	-	266,045
	<u>₩ 1,249,141</u>	<u>₩ 264,659</u>	<u>₩ -</u>	<u>₩ 1,513,800</u>

*(in millions of Korean won)*

	<b>2015</b>			
	<b>Financial liabilities at amortized cost</b>	<b>Other financial liabilities</b>	<b>Derivative financial liabilities</b>	<b>Total</b>
Trade and other payables	₩ 998,799	₩ 5,644	₩ -	₩ 1,004,443
Borrowings	1,486,020	196,250	-	1,682,270
Other financial liabilities	-	-	24,815	24,815
Long-term trade and other payables	61,997	-	-	61,997
Long-term borrowings	1,393,522	-	-	1,393,522
Other non-current financial liabilities	-	-	11,199	11,199
	<u>₩ 3,940,338</u>	<u>₩ 201,894</u>	<u>₩ 36,014</u>	<u>₩ 4,178,246</u>

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**8.2 Net gains or Losses by Category of Financial Instruments**

Net gains or losses on each category of financial instruments for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Loans and receivables		
Gain (loss) on disposal (profit or loss)	₩ (1,545)	₩ (1,852)
Interest income	4,236	3,759
Bad debt expense	(16,002)	(3,678)
Other bad debt expense	(25,372)	(1,885)
Gain on foreign currency translation	40,775	41,340
Loss on foreign currency translation	(44,140)	(12,304)
Available-for-sale financial assets		
Gain (loss) on valuation (other comprehensive income (loss))	11,803	43,661
Gain (loss) on disposal (profit or loss)	13,311	1,075
Gain (loss) on disposal (reclassify to profit or loss) <sup>1</sup>	(4,131)	-
Impairment (profit or loss)	(1,492)	(1,310)
Interest income	5	13
Dividend income	102	492
Financial liabilities measured at amortized cost		
Interest expense	(82,820)	(92,590)
Gain on foreign currency translation	75,631	21,981
Loss on foreign currency translation	(67,861)	(94,245)
Other financial liabilities <sup>2</sup>		
Interest expense	(4,525)	(6,097)
Gain on foreign currency translation	-	4,552
Loss on foreign currency translation	(5,397)	(17,427)
Derivative financial assets and liabilities		
Gain (loss) on derivative transactions (profit or loss)	11,652	(21,706)
Gain (loss) on valuation of derivatives (profit or loss)	(15,993)	(31,339)

<sup>1</sup> The amount reclassified from other comprehensive income to profit or loss.

<sup>2</sup> Other financial liabilities are financial liabilities that are not subject to the categorizations such as financial liabilities related to transfer transactions not qualified for derecognition, financial payment guarantees and others.

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**9. Cash and Cash Equivalents**

Cash and cash equivalents as at December 31, 2016 and 2015, consists of:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Cash on hand	₩	737	₩	306
Bank deposits		39,930		21,700
	₩	<u>40,667</u>	₩	<u>22,006</u>

**10. Restricted Financial Instruments**

Restricted financial instruments as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>		<b>Details</b>
Cash and cash equivalents	₩	410	₩	1,528	Escrow account related to disposal of assets, etc.
Other non-current financial assets		1,598		50	Restricted for lease deposits received

**11. Trade and Other Receivables**

Details of trade and other receivables as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>		<b>2016</b>		
		<b>Receivable amount</b>	<b>Provisions for impairment</b>	<b>Book amount</b>
Trade receivables	₩	752,272	₩ (23,895)	₩ 728,377
Other receivables		86,519	(7,765)	78,754
Long-term trade receivables		24,484	(10,723)	13,761
Long-term other receivables		338,993	(67,298)	271,695
	₩	<u>1,202,268</u>	₩ <u>(109,681)</u>	₩ <u>1,092,587</u>

<i>(in millions of Korean won)</i>		<b>2015</b>		
		<b>Receivable amount</b>	<b>Provisions for impairment</b>	<b>Book amount</b>
Trade receivables	₩	851,342	₩ (25,206)	₩ 826,136
Other receivables		70,863	(864)	69,999
Long-term trade receivables		23,712	(10,723)	12,989
Long-term other receivables		289,948	(48,943)	241,005
	₩	<u>1,235,865</u>	₩ <u>(85,736)</u>	₩ <u>1,150,129</u>

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The Company has transferred trade receivables amounting to ₩ 174,312 million (2015: ₩ 196,250 million) to a bank in exchange for cash for the year ended December 31, 2016. The Company may retain an obligation to compensate a bank for debtors' failure to make payment when they become due; therefore, the transaction has been accounted for as a collateralized borrowing (Note 7, 23 and 40).

Details of other receivables as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Other receivables				
Non-trade receivables	₩	54,880	₩	56,640
Short-term loans		16,876		8,539
Accrued income		6,998		4,820
		<u>78,754</u>		<u>69,999</u>
Long-term other receivables				
Long-term loans		77,150		59,507
Deposits provided		194,545		181,498
		<u>271,695</u>		<u>241,005</u>
	₩	<u>350,449</u>	₩	<u>311,004</u>

The fair value of long-term trade and other receivables is calculated by discounting nominal value of expected future cash inflows at a discount rate which reflects credit risk.

	<b>2016</b>	<b>2015</b>
Discount rate	1.80%~5.00%	2.50%~5.00%

The aging analysis of trade and other receivables as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>						
	<b>Receivables not past due</b>	<b>Past due but not impaired</b>				<b>Impaired</b>	<b>Total</b>
		<b>Up to 3 months</b>	<b>4 to 6 months</b>	<b>7 to 12 months</b>	<b>Over 12 months</b>		
Trade receivables	₩ 412,844	₩ 109,363	₩ 19,696	₩ 21,569	₩ 151,543	₩ 37,257	₩ 752,272
Other receivables	71,115	-	-	-	-	15,404	86,519
Long-term trade receivables	3,297	-	-	-	-	21,446	24,743
Long-term other receivables	263,887	-	-	-	-	77,373	341,260
	<u>₩ 751,143</u>	<u>₩ 109,363</u>	<u>₩ 19,696</u>	<u>₩ 21,569</u>	<u>₩ 151,543</u>	<u>₩ 151,480</u>	<u>₩1,204,794</u>

<i>(in millions of Korean won)</i>	<b>2015</b>						
	<b>Receivables not past due</b>	<b>Past due but not impaired</b>				<b>Impaired</b>	<b>Total</b>
		<b>Up to 3 months</b>	<b>4 to 6 months</b>	<b>7 to 12 months</b>	<b>Over 12 months</b>		
Trade receivables	₩ 566,590	₩ 56,615	₩ 26,387	₩ 33,690	₩ 143,471	₩ 24,589	₩ 851,342
Other receivables	69,999	-	-	-	-	864	70,863
Long-term trade receivables	2,466	-	-	-	16	21,446	23,928
Long-term other receivables	243,903	-	-	-	-	48,943	292,846
	<u>₩ 882,958</u>	<u>₩ 56,615</u>	<u>₩ 26,387</u>	<u>₩ 33,690</u>	<u>₩ 143,487</u>	<u>₩ 95,842</u>	<u>₩1,238,979</u>

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The above amounts do not reflect the present value discount and provisions for impairment.

Individually impaired receivables mainly relate to customers that are experiencing unexpected economic difficulties. The Company expects that a portion of their receivables will be recovered. If the Company determines that no objective evidence of impairment exists for an individually assessed receivables, it collectively assesses them for impairment.

The credit quality of trade receivables and long-term trade receivables that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Counterparties with external credit rating		
A	₩ 145,440	₩ 161,962
BB	302,387	283,865
BBB	66,853	46,708
	<u>514,680</u>	<u>492,535</u>
Counterparties without external credit rating		
Group 1 <sup>1</sup>	12,744	3,008
Group 2 <sup>2</sup>	187,692	329,988
Group 3 <sup>3</sup>	3,196	3,704
	<u>203,632</u>	<u>336,700</u>
	<u>₩ 718,312</u>	<u>₩ 829,235</u>

<sup>1</sup> New customers/related parties (less than 6 months)

<sup>2</sup> Existing customers/related parties (more than 6 months) with no defaults in the past

<sup>3</sup> Existing customers/related parties (more than 6 months) with some defaults in the past. All defaults were fully recovered.

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Movements on the provisions for impairment of receivables for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	<b>2016</b>			
	<b>Beginning balance</b>	<b>Provisions for impaired receivables</b>	<b>Receivables written off as uncollectible</b>	<b>Ending balance</b>
Trade receivables	₩ 25,206	₩ 16,002	₩ (17,313)	₩ 23,895
Other receivables	864	7,017	(116)	7,765
Long-term trade receivables	10,723	-	-	10,723
Long-term other receivables	48,943	18,355	-	67,298
	<u>₩ 85,736</u>	<u>₩ 41,374</u>	<u>₩ (17,429)</u>	<u>₩ 109,681</u>

(in millions of Korean won)

	<b>2015</b>			
	<b>Beginning balance</b>	<b>Provisions for impaired receivables</b>	<b>Receivables written off as uncollectible</b>	<b>Ending balance</b>
Trade receivables	₩ 48,541	₩ 3,678	₩ (27,013)	₩ 25,206
Other receivables	1,123	(30)	(229)	864
Long-term trade receivables	10,723	-	-	10,723
Long-term other receivables	26,008	1,915	21,020	48,943
	<u>₩ 86,395</u>	<u>₩ 5,563</u>	<u>₩ (6,222)</u>	<u>₩ 85,736</u>

The maximum exposure of trade and other receivables to credit risk is same as the carrying amount of each type of receivables mentioned above.

Provision for impaired trade receivables and unused amounts reversed have been included in the statement of profit or loss within 'selling and administrative expenses' (Note 34).

Provision for impaired other receivables and unused amounts reversed have been included in the statement of profit or loss within 'other income and expenses' (Note 35).

Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash.

**12. Other Financial Assets and Liabilities**

Other financial assets and liabilities as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	<b>2016</b>	<b>2015</b>
Other financial assets		
Loans and receivables	₩ 3,902	₩ 1,496
Available-for-sale financial assets	244,521	264,660
Derivative financial assets	5,126	-
	<u>253,549</u>	<u>266,156</u>
Less: current portion	(6,964)	(111)
	<u>₩ 246,585</u>	<u>₩ 266,045</u>

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Other financial liabilities

Derivative financial liabilities	₩	36,001	₩	36,014
Less: current portion		(29,534)		(24,815)
	₩	6,467	₩	11,199

Details of loans and receivables as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>		<b>2016</b>		<b>2015</b>
Short-term financial instruments	₩	2,304	₩	6
Long-term financial instruments		1,598		1,490
	₩	3,902	₩	1,496

Available-for-sale financial assets as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>		<b>2016</b>		<b>2015</b>
Equity securities				
Listed	₩	194,532	₩	220,427
Non-listed		30,784		32,074
Investments		18,517		11,997
Debt securities				
Government bonds		688		162
	₩	244,521	₩	264,660

Companies in which the Company has more than 20% of voting rights but are not significantly influenced by the Company as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>			<b>2016</b>		<b>2015</b>	
	<b>Equity securities</b>	<b>Percentage of ownership (%)</b>	<b>Cost</b>	<b>Book amount</b>	<b>Book amount</b>	
Chin Hung International Inc. <sup>1</sup>	Listed	48.35	₩ 153,492	₩ 155,320	₩ 170,926	
OKSAN OCHANG Highway Corporation <sup>2</sup>	Non-listed	30.00	14,970	14,970	14,970	
			₩ 168,462	₩ 170,290	₩ 220,427	

<sup>1</sup> The shares have been provided as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. (Note 40). Also, although the Company holds more than 20% of total interest, the Company does not have significant influence over Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. Therefore, the shares are classified as available-for-sale financial assets accordingly.

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<sup>2</sup> Although the Company owns 30% ownership in OKSAN OCHANG Highway Corporation, considered that the Company does not have significant influence over the entity since the decision for financial and operating policy is under the government's control. Therefore, the investment was classified as available-for-sale financial assets.

Changes in available-for-sale financial assets for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
<b>Beginning balance</b>	₩	264,660	₩	170,172
Acquisitions		8,539		56,202
Disposals		(34,858)		(4,065)
Impairment loss on available-for-sale financial assets		(1,492)		(1,310)
Net gains (losses) reclassified to equity		11,803		43,661
Net gains (losses) reclassified from equity		(4,131)		-
<b>Ending balance</b>	₩	<u>244,521</u>	₩	<u>264,660</u>
Current portion		-		104
Non-current portion		244,521		264,556

Changes in unrealized gain or loss on valuation of available-for-sale financial assets presented as accumulated other comprehensive income for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
<b>Beginning balance</b>	₩	10,333	₩	(22,762)
Gain on valuation		11,803		43,661
Reclassification to profit or loss		(4,131)		-
Income tax effects related to components of other comprehensive income		(1,856)		(10,566)
<b>Ending balance</b>	₩	<u>16,149</u>	₩	<u>10,333</u>

The Company entered into currency forward exchange contracts, currency swaps, instruments forward contracts and a total return swap to hedge the foreign exchange risks and other risks arising from trade receivable denominated in foreign currency and others. The related gain (loss) on valuation of derivatives is recognized as profit or loss in the separate statement of income.

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Details of derivative financial assets and liabilities as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Current				
Currency forward exchange contracts	₩ 3,627	₩ 23,140	₩ -	₩ 22,328
Instruments forward contracts	890	6,363	-	-
Currency Swap	143	-	-	2,487
Total return swap <sup>1</sup>	-	31	-	-
	<u>4,660</u>	<u>29,534</u>	<u>-</u>	<u>24,815</u>
Non-current				
Currency forward exchange contracts	466	6,467	-	7,757
Total return swap <sup>1</sup>	-	-	-	3,442
	<u>466</u>	<u>6,467</u>	<u>-</u>	<u>11,199</u>
Total	<u>₩ 5,126</u>	<u>₩ 36,001</u>	<u>₩ -</u>	<u>₩ 36,014</u>

<sup>1</sup> The Company entered into a total return swap to settle the difference between the fair value after three years from the issuance date of convertible bonds (October, 2014, amounting to ₩ 35 billion of nominal amount) issued by Hyosung Engineering Co., Ltd., which is a subsidiary of the Company, and the rate of return (6.7%) on the convertible bonds with Hana HS 1st co., Ltd., which is the underwriter of the convertible bonds.

**13. Other Assets**

Details of other assets as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
<b>Other current assets</b>		
Advance payments	₩ 74,816	₩ 74,202
Provisions	(290)	(290)
Prepaid expenses	19,363	26,925
	<u>93,889</u>	<u>100,837</u>
<b>Other non-current assets</b>		
Other investments	23,895	23,735
Long-term prepaid expenses	5,586	-
	<u>29,481</u>	<u>23,735</u>
	<u>₩ 123,370</u>	<u>₩ 124,572</u>

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**14. Inventories**

Details of inventories as at December 31, 2016 and 2015, are as follows:

*(in millions of Korean won)*

	<b>2016</b>		
	<b>Acquisition cost</b>	<b>Provision</b>	<b>Book amount</b>
Merchandise	₩ 33,896	₩ -	₩ 33,896
Finished goods	230,391	(11,214)	219,177
Semi finished goods	102,761	(1,507)	101,254
Work in process	45,661	-	45,661
Raw materials	117,955	(1,607)	116,348
Sub-materials	13,339	-	13,339
Supplies	3,305	-	3,305
Packaging	1,715	-	1,715
Goods in transit	29,696	-	29,696
Cost accrued on construction contracts	6,532	-	6,532
Temporary installations	65	-	65
Finished housing	-	-	-
Sites	25,945	(8,276)	17,669
	<u>₩ 611,261</u>	<u>₩ (22,604)</u>	<u>₩ 588,657</u>

*(in millions of Korean won)*

	<b>2015</b>		
	<b>Cost</b>	<b>Provision</b>	<b>Book amount</b>
Merchandise	₩ 22,086	₩ -	₩ 22,086
Finished goods	230,457	(17,034)	213,423
Semi finished goods	104,742	(1,063)	103,679
Work in process	37,013	-	37,013
Raw materials	117,511	(1,438)	116,073
Sub-materials	10,310	-	10,310
Supplies	2,400	-	2,400
Packaging	1,745	-	1,745
Goods in transit	31,082	-	31,082
Cost accrued on construction contracts	7,880	-	7,880
Temporary installations	24	-	24
Finished housing	689	-	689
Sites	67,412	(13,888)	53,524
	<u>₩ 633,351</u>	<u>₩ (33,423)</u>	<u>₩ 599,928</u>

Inventories recognized as an expense during the year ended December 31, 2016 amounted to ₩ 4,491,182 million (2015: ₩ 4,766,662 million). There were included in 'cost of sales'. Also, the Company recognized reverse of provisions for inventories amounting to ₩ 10,819 million (2015: provisions for inventories amounting to ₩ 3,431 million) as expense which is included in the statement of profit or loss within 'cost of sales'.



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Changes in property, plant and equipment for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016									
	Land	Buildings	Structures	Machinery	Vehicles	Tools and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning balance	₩ 1,402,064	₩ 513,958	₩ 155,509	₩ 993,150	₩ 4,004	₩ 58,539	₩ 12,001	₩ 228,690	₩ 834	₩ 3,368,749
Additions	12,757	954	289	10,664	886	3,421	2,457	137,683	78,132	247,243
Disposals	-	(680)	(10)	(6,764)	(184)	(5)	(1,224)	-	-	(8,867)
Depreciation and others <sup>1</sup>	-	(18,813)	(5,559)	(198,850)	(1,694)	(22,517)	(2,839)	-	-	(250,272)
Impairment loss <sup>2</sup>	-	(8,392)	(749)	(16,412)	(6)	(425)	-	-	-	(25,984)
Transfers <sup>3</sup>	-	22,217	22,632	206,467	1,087	18,420	-	(192,177)	(78,198)	448
Government grants received	-	(71)	-	(828)	-	(370)	-	-	-	(1,269)
Ending balance	₩ 1,414,821	₩ 509,173	₩ 172,112	₩ 987,427	₩ 4,093	₩ 57,063	₩ 10,395	₩ 174,196	₩ 768	₩ 3,330,048
<i>(in millions of Korean won)</i>	2015									
	Land	Buildings	Structures	Machinery	Vehicles	Tools and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning balance	₩ 1,402,667	₩ 471,643	₩ 100,879	₩ 754,181	₩ 4,502	₩ 51,348	₩ 12,822	₩ 466,665	₩ 2,789	₩ 3,267,496
Additions	4,111	1,265	344	13,766	848	5,538	3,589	308,435	11,819	349,715
Disposals	(4,629)	(944)	(70)	(1,383)	(67)	(152)	(2,582)	-	-	(9,827)
Depreciation and others <sup>1</sup>	-	(18,534)	(4,728)	(180,910)	(1,707)	(20,434)	(1,828)	-	-	(228,141)
Impairment loss	-	-	-	(10,349)	-	(13)	-	-	-	(10,362)
Transfers <sup>3</sup>	-	60,519	59,084	418,391	428	22,873	-	(546,410)	(13,774)	1,111
Transferred from investment property	-	9	-	-	-	-	-	-	-	9
Government grants received	(85)	-	-	(546)	-	(621)	-	-	-	(1,252)
Ending balance	₩ 1,402,064	₩ 513,958	₩ 155,509	₩ 993,150	₩ 4,004	₩ 58,539	₩ 12,001	₩ 228,690	₩ 834	₩ 3,368,749

<sup>1</sup> Depreciation includes ₩ 1,105 million (2015:₩ 390 million) of shrinkage loss from others and ₩ 1,735 million (2015:₩ 1,438 million) of supplies expense.

<sup>2</sup> Due to the accumulated operating loss in the optical film segment, a separate cash-generating unit in the operating segment of chemicals, the Company recognized impairment loss, amounting to ₩ 23,798 million, as other expenses (Note 35).

<sup>3</sup> Transfers include transfer of construction in progress, transfer of machinery-in-transit, transfer from or to non-current assets held-for-sale, and transfer from or to intangible assets. The carrying amount of property, plant and equipment included in the disposal group classified as held for sale was ₩ 26 million in 2015.

Line items including depreciation in the separate statements of profit or loss for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
Cost of sales	₩ 226,554	₩ 206,370
Selling and administrative expenses	8,751	6,452
Research and development expenses	12,127	13,491
	₩ 247,432	₩ 226,313

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During the year, the Company has capitalized borrowing costs amounting to ₩ 1,824 million (2015: ₩ 7,759 million) on property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 3.13% (2015: 3.45%).

Certain amounts of the property, plant and equipment are provided as collaterals to financial institutions for borrowings (Note 40).

**16. Investment Properties**

Details of investment properties as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		
	<b>Cost</b>	<b>Accumulated depreciation<sup>1</sup></b>	<b>Book amount</b>
Land	₩ 338,469	₩ (3,485)	₩ 334,984
Building	187,599	(53,811)	133,788
	<u>₩ 526,068</u>	<u>₩ (57,296)</u>	<u>₩ 468,772</u>

  

<i>(in millions of Korean won)</i>	<b>2015</b>		
	<b>Cost</b>	<b>Accumulated depreciation<sup>1</sup></b>	<b>Book amount</b>
Land	₩ 323,615	₩ (3,485)	₩ 320,130
Building	189,160	(49,225)	139,935
	<u>₩ 512,775</u>	<u>₩ (52,710)</u>	<u>₩ 460,065</u>

<sup>1</sup> Accumulated impairment losses are included.

Changes in investment properties for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		
	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Beginning balance	₩ 320,130	₩ 139,935	₩ 460,065
Acquisition	19,063	960	20,023
Disposals	(4,209)	(2,407)	(6,616)
Depreciation	-	(4,700)	(4,700)
Ending balance	<u>₩ 334,984</u>	<u>₩ 133,788</u>	<u>₩ 468,772</u>

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(in millions of Korean won)

	2015		
	Land	Buildings	Total
Beginning balance	₩ 332,297	₩ 149,788	₩ 482,085
Acquisition	-	9	9
Disposals	(12,167)	(5,010)	(17,177)
Depreciation	-	(4,843)	(4,843)
Transferred to property, plant and equipment	-	(9)	(9)
Ending balance	₩ 320,130	₩ 139,935	₩ 460,065

During the year, rental income from investment property is ₩ 42,038 million (2015: ₩ 40,011 million), and operating expenses (including depreciation) from investment properties that generated rental income are ₩ 29,652 million (2015: ₩ 30,122million).

Fair value of investment properties as at December 31, 2016, is ₩ 617,439million (2015: ₩ 609,503 million) and the fair value is estimated based on the value determined by the Korean government, which is announced for property tax assessment purposes, etc.

**17. Intangible Assets**

Changes in intangible assets for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	2016			
	Industrial property	Others <sup>1</sup>	Membership rights	Total
Beginning balance	₩ 6,504	₩ 23,222	₩ 64,064	₩ 93,790
Additions	891	3,763	194	4,848
Disposal	-	-	(4,735)	(4,735)
Amortization	(1,371)	(7,993)	-	(9,364)
Transferred to property, plant and equipment	-	(448)	-	(448)
Ending balance	₩ 6,024	₩ 18,544	₩ 59,523	₩ 84,091

(in millions of Korean won)

	2015			
	Industrial property	Others <sup>1</sup>	Membership rights	Total
Beginning balance	₩ 5,308	₩ 29,619	₩ 66,003	₩ 100,930
Additions	2,449	5,451	20	7,920
Disposal	-	(2,775)	(1,959)	(4,734)
Amortization	(1,253)	(7,988)	-	(9,241)
Transferred to property, plant and equipment	-	(1,085)	-	(1,085)
Ending balance	₩ 6,504	₩ 23,222	₩ 64,064	₩ 93,790

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<sup>1</sup> Facility Usage Rights and Resource development cost are included.

Amortization of ₩ 269 million (2015: ₩ 275 million) is included in 'cost of sales' in the separate statement of profit or loss, ₩ 255 million (2015: ₩ 209 million) in 'research and development expenses', and ₩ 8,840 million (2015: ₩ 8,757 million) in the 'selling and administrative expenses'.

**18. Insurance Coverage**

As at December 31, 2016, certain inventories, property, plant and equipment are insured and details of insurance are as follows:

<i>(in millions of Korean won)</i>	<b>Insured assets</b>	<b>Book amount</b>	<b>Insured amount</b>	<b>Insurance company</b>
Package insurance	Buildings	₩ 509,173	₩ 1,403,611	
	Structures	172,113	172,660	Samsung Fire and
	Machinery	987,427	3,425,170	Marine Insurance Co.
	Inventories	588,657	632,375	and others
	Vehicles and tools	61,156	112,910	
		<u>₩ 2,318,526</u>	<u>₩ 5,746,726</u>	

**19. Government Grants**

The Company entered into development agreements with Korea Evaluation Institute of industrial technology and others for various national research projects, including development of materials related to polyketone.

As at December 31, 2016, the balance of government grants related to asset acquisition is ₩ 14,774 million (2015: ₩ 15,873 million), and the balance of government grants related to liabilities to be repaid is ₩ 19,718 million (2015: ₩ 22,419 million).

**20. Investment in Subsidiaries and Associates**

Changes in investment in subsidiaries and associates for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Beginning balance	₩ 1,585,531	₩ 1,540,489
Acquisition	32,759	96,826
Disposal	(4,409)	(25,385)
Impairment loss	(29,212)	(26,399)
Ending balance	<u>₩ 1,584,669</u>	<u>₩ 1,585,531</u>

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Details of investments in subsidiaries as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	Location	Percentage of ownership (%)	Book amount	
			2016	2015
Galaxia Photonics Co., Ltd.	Korea	83.32	₩ -	₩ -
Gongdeok Gyeongwoo Development Corporation <sup>1</sup>	Korea	73.33	974	974
Nautilus Hyosung Inc.	Korea	54.02	75,178	75,178
Doomi Construction Co.,Ltd. <sup>2</sup>	Korea	100.00	-	-
Somesevit Corporation <sup>3</sup>	Korea	57.83	-	-
Taeansolarfarm Corp.	Korea	100.00	1,880	1,880
HanaLandchip Private Real Estate Investment Trust No.39	Korea	50	16,000	16,000
Hyosung Goodsprings, Inc.	Korea	100.00	74,361	74,361
Hyosung Engineering Co., Ltd. <sup>2</sup>	Korea	100.00	-	-
Hyosung Capital Co., Ltd.	Korea	97.15	361,762	361,762
Hyosung Investment & Development Corporation	Korea	58.75	34,798	34,798
Hyosung Trans World Co., Ltd.	Korea	100.00	4,698	4,698
Baoding Hyosung Tianwei Transformer Co., Ltd.	China	80	-	-
Lloyd Dynamowerke GmbH	Germany	100.00	-	381
GST Global GmbH	Germany	100.00	160,226	160,226
Hyosung (H.K) LIMITED	China	100.00	557	557
Hyosung (Taiwan) Corporation	Taiwan	100.00	226	226
Hyosung Brasil Industria e Comercio de Fibras LTDA	Brazil	100.00	33,322	33,322
Hyosung Brasil industrial & commercial LTDA	Brazil	100.00	5,451	5,451
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	China	100.00	156,059	156,059
Hyosung Chemicals (Jiaxing) Co., Ltd.	China	100.00	4,848	4,848
Hyosung Corporation India Pvt. Ltd.	India	100.00	461	461
Hyosung Europe SRL	Italy	100.00	3,704	3,704
Hyosung Holdings USA	USA	100.00	89,589	89,589
Hyosung International Trade(Jiaxing) Co., Ltd.	China	100.00	1,295	1,295
Hyosung Istanbul TEKSTIL LTD.STI	Turkey	76.66	12,621	12,621
Hyosung Japan Co., Ltd.	Japan	100.00	6,899	6,899
Hyosung Luxembourg S.A	Luxembourg	100.00	18,535	18,535
Hyosung Resource (Australia) PTY Ltd.	Australia	100.00	14,383	14,284
Hyosung Corporation Rus.	Russia	100.00	1,692	1,692
Hyosung Singapore PTE Ltd.	Singapore	100.00	17	17
Hyosung Spandex (GuangDong) Co., Ltd.	China	100.00	102,594	102,594
Hyosung Spandex (Jiaxing) Co., Ltd.	China	100.00	117,289	117,289
Hyosung Spandex (Zhuhai) Co., Ltd.	China	75.00	24,644	24,644
Hyosung SRL	Romania	100.00	1	1
Hyosung Steel Cord (Qingdao) Co., Ltd.	China	100.00	70,647	70,647
Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.	China	100.00	10,772	7,246
Hyosung Vietnam Co., Ltd.	Vietnam	88.21	49,192	49,192
Hyosung Wire Luxembourg S.A	Luxembourg	100.00	-	-
PT.HYOSUNG JAKARTA	Indonesia	99.90	1,268	1,268
Xepix Corp.	USA	-	-	2,768
Zhangjiagang Xiaosha Coil Service Co., Ltd.	China	64.50	10,404	10,404
Nantong Hyosung Transformer Co., Ltd.	China	100.00	6,988	10,796
Forza Motors Korea Corp.	Korea	100.00	20,001	20,001
Hyosung T&D India Private Ltd.	India	100.00	11,685	11,685
			₩ 1,505,021	₩ 1,508,353

# Hyosung Corporation

## Notes to the Separate Financial Statements

### December 31, 2016 and 2015

<sup>1</sup> Equity shares of Gongdeok Gyeongwoo Development Corporation are pledged as security to financial institutions for the borrowings of Gongdeok Gyeongwoo Development Corporation (Note 21 and 40).

<sup>2</sup> The Company plans to merge Doomi Construction Co., Ltd. and Hyosung Engineering Co., Ltd. using small-scale merger method on April 1, 2017.

<sup>3</sup> Equity shares of Somesevit Corporation are pledged as security to financial institutions for the borrowings of Somesevit Corporation (Note 21 and 40).

Details of investments in associates as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	Location	Percentage of ownership (%)	Book value	
			2016	2015
Shinwha Intertek Corp. <sup>1</sup>	Korea	15.26	16,918	16,918
Taebaek Wind Power Co., Ltd.	Korea	35.00	5,334	5,334
Pyeongchang Wind Power Co., Ltd. <sup>2</sup>	Korea	42.00	6,510	6,510
Hyosung Information System Co., Ltd.	Korea	50.00	24,860	24,860
Hyosung Toyota Corp.	Korea	40.00	-	-
Hyosung ITX Co., Ltd.	Korea	34.99	6,961	6,961
PT. Gelora Mandiri Membangun <sup>1</sup>	Indonesia	15.00	4,687	4,687
PT. Papua Agro Lestari <sup>1</sup>	Indonesia	15.00	10,458	6,347
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	Thailand	-	-	1,641
The Kwangjuilbo	Korea	49.00	3,920	3,920
			<u>₩ 79,648</u>	<u>₩ 77,178</u>

<sup>1</sup> Although the Company holds less than 20% of the associate's equity shares, the Company decided that it has significant influence over the associate in the way of representation on the governing body of the investee and interchange of managerial personnel.

<sup>2</sup> Equity shares of Pyeongchang Wind Power Co., Ltd are pledged as security to financial institutions for the borrowings of Pyeongchang Wind Power Co., Ltd (Note 21 and 40).

Details of impairment losses recognized in relation to investments in subsidiaries and associates for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	2016			
	Book amount before recognizing impairment loss	Recoverable amount <sup>1</sup>	Impairment loss	Method used
Nantong Hyosung Transformer Co., Ltd	₩ 10,796	₩ 6,988	₩ 3,808	Net fair value
Hyosung Sumiden Steel Cord(Nanjing) CO., LTD	35,795	10,772	25,023	Net fair value
Lloyd Dynamowerke GmbH	381	-	381	Net fair value
	<u>₩ 46,972</u>	<u>₩ 17,760</u>	<u>₩ 29,212</u>	

**Hyosung Corporation**  
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(in millions of Korean won)

	2015						
	Book amount before recognizing impairment loss		Recoverable amount <sup>1</sup>		Impairment loss	Method used	
Hyosung Engineering Co., LTD	₩	100	₩	-	₩	100	Net fair value
Gongdeok Gyeongwoo Development Corporation		1,487		974		513	Net fair value
Hyosung Participacoes Brasil LTDA		8,607		5,451		3,156	Net fair value
Hyosung Sumiden Steel Cord(Nanjing) CO., LTD		18,430		7,246		11,184	Net fair value
Sumiden Hyosung Steel Cord (Thailand)		12,146		1,640		10,506	Net fair value
Hyosung Composite(GuangDong) Co., Ltd.		940		-		940	Net fair value
	₩	41,710	₩	15,311	₩	26,399	

The Company considers net fair value and value in use in calculating the recoverable amounts of investments in subsidiaries and associates. The net fair value was estimated based on the best information available to calculate the amount of consideration, which may be received in a sale of assets between independent parties with reasonable judgment and intentions, less costs of disposal. The value in use was calculated by discounting estimated future cash flows of subsidiaries and associates with an appropriate discount rate, and a valuation report from an independent external valuation agency was used.

Fair value of investments in associates that has a quoted market price as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won, except per share amounts)

	2016					
	Number of shares	Market price per share	Fair value	Book amount		
Hyosung ITX Co., Ltd.	4,349,000	₩ 11,700	₩ 50,883	₩ 6,961		
Shinwha Intertek Corp.	4,446,227	3,675	16,340	16,918		

(in millions of Korean won, except per share amounts)

	2015					
	Number of shares	Market price per share	Fair value	Book amount		
Hyosung ITX Co., Ltd.	4,349,000	₩ 14,900	₩ 64,800	₩ 6,961		
Shinwha Intertek Corp.	4,446,227	2,240	9,960	16,918		

**Hyosung Corporation**  
**Notes to the Separate Financial Statements**  
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**21. Related Party Transactions**

Details of subsidiaries, associates and other related parties as at December 31, 2016, are as follows:

*Subsidiaries*

<b>Location</b>	<b>Related Party</b>
Domestic	Galaxia Photonics Co., Ltd., Gongdeok Gyeongwoo Development Corporation, Nautilus Hyosung Inc., Doomi Construction Co., Ltd., Somesevit Corporation, HSC 1 <sup>st</sup> LLC., HSC 2 <sup>nd</sup> LLC., HSC 3 <sup>rd</sup> LLC., HSCS 1 <sup>st</sup> LLC., SYHS first, Forza Motors Korea Corp., HanaLandchip Private Real Estate Investment Trust No.39, ATMplus.Inc, NAUTILUS HYOSUNG CMS INC., NAUTILUS HYOSUNG TECH INC., Taeansolarfarm Corp., Hyosung Goodsprings, Inc., Hyosung FMS Co., Ltd., Hyosung Engineering Co., Ltd., Hyosung Capital Co., Ltd., Hyosung Investment & Development Corporation, Hyosung Trans World Co., Ltd., Hyosung Capital The 11th Securitization Co., Ltd., Hyosung Capital The 12th Securitization Co., Ltd., Hyosung Capital The 13th Securitization Co., Ltd., Hyosung Capital The 14th Securitization Co., Ltd., Hyosung Capital The 15th Securitization Co., Ltd., Hyosung Capital The 17th Securitization Co., Ltd., Hyosung Capital The 18th Securitization Co., Ltd., Hyosung Capital The 19th Securitization Co., Ltd., Hyosung Capital The 20th Securitization Co., Ltd., Hyosung Capital The 21th Securitization Co., Ltd., Hyosung Capital The 22th Securitization Co., Ltd., Hyosung Capital The 23th Securitization Co., Ltd., Hyosung Capital The 24th Securitization Co., Ltd.
America	Global Safety Textiles U.S. Holdings, Inc., Global Safety Textiles LLC, GST Safety Textiles Mexico S. de R.L. de C.V GST Automotive Safety Components International LLC, GST Automotive Safety Components International LLC S.A.de C.V, HICO America Sales & Tech., Hyosung Holdings USA, Hyosung Brasil industria e comercio de fibras LTDA, Hyosung Mexico S. de R.L. de C.V., Hyosung Brasil industrial & commercial LTDA, Hyosung USA Inc., Nautilus Hyosung America Inc., CONSORCIOHYOSUGN-VIMAC,S.A.
Europe	GST Global GmbH, Global Safety Textiles GmbH, GST Automotive Safety Poland Sp.z.oo, GST Automotive Safety UK Limited, GST Automotive Safety RO S.R.L., GST Safety Textiles RO S.R.L., Hyosung Europe SRL, Hyosung Istanbul TEKSTIL LTD.STI, Hyosung Luxembourg S.A, Hyosung SRL, Hyosung Wire Luxembourg S.A, Hyosung RUS, Lloyd Dynamowerke GmbH

**Hyosung Corporation**  
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Asia	Hyosung Corporation India Pvt. Ltd., Hyosung T&D India Pvt Ltd, PT. HYOSUNG JAKARTA, Hyosung(Taiwan) Corporation, Hyosung Japan Co., Ltd., Hyosung Singapore PTE Ltd., Hyosung Vietnam Co., Ltd., Hyosung DongNai Co.,Ltd.
China	Baoding Hyosung Tianwei Transformer Co., Ltd., Hyosung Financial System (Huizhou) Co.,Ltd, Hyosung (H.K) LIMITED, Hyosung Chemical Fiber (Jiaxing) Co., Ltd., Hyosung Chemicals (Jiaxing) Co., Ltd., GST China Investment Limited (Hong Kong), Hyosung International Trade(Jiaxing) Co., Ltd., Hyosung Spandex (GuangDong) Co., Ltd., Hyosung Spandex (Jiaxing) Co., Ltd., Hyosung spandex(Quzhou) Co., Ltd., Hyosung Spandex (Zhuhai) Co., Ltd., Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd., Hyosung Steel Cord (Qingdao) Co., Ltd., Zhangjiagang Xiaosha Coil Service Co., Ltd., Hyosung International(HK) Ltd., Nantong Hyosung Transformer Co., Ltd., GST Automotive Safety(Changshu) Co. Ltd., Hyosung New Material & Hitech(Quzhou), Luck Faith Investment Ltd., Central Trade Investment Ltd.
Others	Hyosung Resource (Australia) PTY Ltd., GST Automotive Safety South Africa(Proprietary) Limited

*Associates*

<b>Location</b>	<b>Related Party</b>
Domestic	Soonchon Eco Green Corporation, Shinwha intertek Co. Ltd., THE KWANGJUILBO, Taebaek Wind Power Co., Ltd., Pyeongchang Wind Power Co., Ltd., Hyosung Information System Co., Ltd., Hyosung Toyota Corp., Hyosung ITX Co., Ltd., Smilegate 2016KVF
Asia	Papua Agro Lestari, PT. GELORA MANDIRI MEMBANGUN(GMM)

**Hyosung Corporation**  
**Notes to the Separate Financial Statements**  
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*Other related parties*

<b>Location</b>	<b>Related Party</b>
Domestic	Galaxia Corportion Co., Ltd, Galaxia device Co., Ltd., Galaxia Micro Payment Co., Ltd, Galaxia Electronics Co., Ltd, Gongdeok Development Corporation, The Class Hyosung Co., Ltd, The Premium Hyosung Co., Ltd., Dong Ryung Co., Ltd, Shin Dong Jin Co., Ltd., A-Seung Automotive Group, ITX Marketing Co., Ltd, Trinity Asset Management Co., Ltd., Haengbokdoodrimi Co., Ltd, Hyosung Premier Motors Corporation, Dbestpartners Co., Ltd. and others
China	Tianjin Galaxia Device Electronics Co., Ltd., Huizhou Galaxia Device Electronics Co., Ltd., QingdaoGalaxia Device Electronics Co., Ltd., SHINWHA INTERTEK (SUZHOU) CO.,LTD, DONGGUAN SHINWHA INTERTEK CORP and others
Asia	Shinwha Intertek Corp and others
Europe	Shinwha intertek Slovakia S.R.O and others
America	Galaxia America, Inc., and others

*Others<sup>1</sup>*

<b>Location</b>	<b>Related Party</b>
Domestic	GABE Co., Ltd, Galaxia SM Co., Ltd, Galaxia Communications Co., Ltd, Shinsung Motors.Co. Ltd., IB Media Net Inc., EveryShow Inc., Chin Hung International Inc., Taeuk Construction Co., Ltd and others
China	IB China, Ltd. and others
Asia	Galaxia Media, Inc. and others
America	IB America, Ltd. and others

<sup>1</sup> Although the entity is not the related party of the Group in accordance with Korean IFRS 1024, the entity belongs to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

Sales and purchases with related parties for the periods ended December 31, 2016 and 2015, are as follows:

**Hyosung Corporation**  
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(in millions of Korean won)

	2016			
	Sales and others <sup>1</sup>	Dividend income and others	Purchases and others <sup>1</sup>	Acquisition of fixed assets
<b>Subsidiaries</b>				
Hyosung Japan Co., Ltd.	₩ 224,454	₩ -	₩ 34,006	₩ 532
Hyosung Singapore PTE Ltd.	188,551	-	10,029	-
HICO America Sales & Tech.	159,384	-	1,002	-
Hyosung Vietnam Co., Ltd.	137,319	105,468	130,547	-
Hyosung USA Inc.	110,797	-	1,067	-
Hyosung Holdings USA.	54,719	-	1,634	-
Hyosung Luxembourg S.A	39,565	-	57	-
Hyosung DongNai Co., Ltd.	33,035	-	31,705	-
HYOSUNG INTERNATIONAL(HK) LTD.	30,542	-	761	-
GST Global GmbH	28,084	-	1,236	-
Hyosung Europe SRL	25,469	-	839	-
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	16,038	-	53,726	-
Hyosung Steel Cord (Qingdao) Co., Ltd.	3,844	-	32,816	-
Nantong Hyosung Transformer Co., Ltd.	8,366	-	48,281	-
Hyosung Goodsprings, Inc.	20,915	3,600	2,310	2,580
Nautilus Hyosung Inc	5,232	-	10,055	403
Hyosung Investment & Development Corporation	-	26,320	-	-
Hyosung Trans World Co., Ltd.	25	2,400	138,414	385
Hyosung Spandex (Jiaxing) Co., Ltd.	10,740	35,738	833	-
Others	121,300	12,363	39,552	2,108
	1,218,379	185,889	538,870	6,008
<b>Associates</b>				
Hyosung ITX Co., Ltd.	-	439	2,166	380
Hyosung Information System Co., Ltd.	66	3,460	373	618
Shinwha Intertek Corp.	6,625	-	5	-
Others	2,273	-	40	-
	8,964	3,899	2,584	998
<b>Other related parties</b>				
Shin Dong Jin Co., Ltd.	-	-	6,139	-
Gongdeok Development Corporation	-	-	8,590	-
Galaxia Electronics Co., Ltd	242	-	19,567	3,587
The Class Hyosung	2,750	-	8	-
Others	83	-	441	-
	3,075	-	34,745	3,587
<b>Others</b>				
Chin Hung International Inc.	743	-	51,803	-
Others	999	-	689	-
	1,742	-	52,492	-
	₩ 1,232,160	₩ 189,788	₩ 628,691	₩ 10,593

<sup>1</sup> Sales, other income, interest income and others are included in sales and others. Purchase of raw materials, export fees, service fees, other expenses and others are included in purchases and others.

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	2015			
	Sales and others <sup>1</sup>	Dividend income and others <sup>2</sup>	Purchases and others <sup>1</sup>	Acquisition of fixed assets
<b>Subsidiaries</b>				
Hyosung Vietnam Co., Ltd.	₩ 166,969	₩ 72,716	₩ 134,392	₩ -
Hyosung USA Inc.	117,098	-	1,271	-
HICO America Sales & Tech.	141,301	-	3,818	-
Hyosung Singapore PTE Ltd.	118,818	-	10,242	-
Hyosung Japan Co., Ltd.	202,458	-	46,375	139
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	14,895	-	55,032	-
Hyosung Steel Cord (Qingdao) Co., Ltd.	3,574	-	25,608	-
Hyosung Luxembourg S.A	36,940	-	115	-
GST Global GmbH	22,345	-	-	-
Nantong Hyosung Transformer Co., Ltd.	18,494	-	64,394	-
Hyosung Holdings USA	29,885	-	945	-
HYOSUNG INTERNATIONAL(HK) LTD.	25,700	-	938	-
Hyosung Spandex (Jiaxing) Co., Ltd.	11,666	35,758	341	-
Doomi Construction Co., Ltd.	23,516	-	-	-
Hyosung Goodsprings, Inc.	21,718	3,600	317	3,727
Nautilus Hyosung Inc <sup>3</sup>	2,733	-	7,570	695
Others	106,533	45,123	170,481	7,878
	<u>1,064,643</u>	<u>157,197</u>	<u>521,839</u>	<u>12,439</u>
<b>Associates</b>				
Nautilus Hyosung Inc. <sup>3</sup>	2,360	-	3,638	559
Hyosung Information System Co., Ltd.	210	4,325	64	638
Pyeongchang Wind Power Co., Ltd.	24,800	-	-	-
Shinwha Intertek Corp.	6,527	-	37	-
Others	991	331	3,665	30
	<u>34,888</u>	<u>4,656</u>	<u>7,404</u>	<u>1,227</u>
<b>Other related parties</b>				
Gongdeok Development Corporation	704	-	8,347	-
Galaxia Electronics Co., Ltd	649	-	8,804	2,620
Others	655	-	6,860	-
	<u>2,008</u>	<u>-</u>	<u>24,011</u>	<u>2,620</u>
<b>Others</b>				
Chin Hung International Inc.	1,736	-	150,003	43,238
Others	916	-	965	-
	<u>2,652</u>	<u>-</u>	<u>150,968</u>	<u>43,238</u>
	<u>₩ 1,104,191</u>	<u>₩ 161,853</u>	<u>₩ 704,222</u>	<u>₩ 59,524</u>

<sup>1</sup> Sales, other income, interest income and others are included in sales and others. Purchase of raw materials, export fees, service fees, other expenses and others are included in purchases and others.

<sup>2</sup> Dividend income, disposal of Intangible assets and Non-current assets held-for-sale are included in dividend income and others

**Hyosung Corporation**  
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<sup>3</sup> During 2015, the Company reclassified Nautilus Hyosung Inc. into a subsidiary from an associate through acquiring additional 10.52% shares of Nautilus Hyosung Inc.

Outstanding balances arising from sales/purchases of goods and services as at December 31, 2016 and 2015, are as follows:

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	2016			
	Trade receivables	Other receivables <sup>1</sup>	Trade payables	Other payables <sup>1</sup>
<b>Subsidiaries</b>				
Doomi Construction Co., Ltd.	₩ 113,190	₩ 8,932	₩ -	₩ 40
Gongdeok Gyeongwoo Development Corporation	1,752	26,315	-	-
Hyosung Transworld, Co., Ltd.	-	1	6,701	18,995
Somesevit Corporation	-	22,000	-	140
Hyosung Vietnam Co., Ltd.	5,371	1,617	24,605	5
Nantong Hyosung Transformer Co., Ltd.	3,308	9,851	15,862	229
Hyosung Goodsprings, Inc.	579	263	-	14,951
Galaxia Photonics Co., Ltd.	-	6,773	-	-
Hyosung Chemical Fiber(Jiaying)Co., Ltd.	6,260	111	4,907	87
Hyosung Spandex(Jiaying) Co., Ltd.	5,070	253	28	-
Zhangjiagang Xiaosha Coil Service Co., Ltd.	9,085	2	2	-
GST Global GmbH	13,396	217	-	93
Hyosung T&D India Pvt Ltd,	14,993	25	3,064	-
Baoding Hyosung Tianwei Transformer Co., Ltd.	-	15,818	405	-
Others	20,753	14,135	10,904	10,564
	<u>193,757</u>	<u>106,313</u>	<u>66,478</u>	<u>46,082</u>
<b>Associates</b>				
Shinwha intertek Co. Ltd.	3,832	2	-	99
Hyosung Toyota Corp.	1,410	-	-	-
THE KWANGJUILBO	-	7,482	-	22
PT. GELORA MANDIRI MEMBANGUN	-	5,345	-	-
Hyosung ITX Co., Ltd.	-	-	500	732
Others	-	25	-	307
	<u>5,242</u>	<u>12,854</u>	<u>500</u>	<u>1,160</u>
<b>Other related parties</b>				
Gongdeok Development Corporation	-	4,344	-	7
Galaxia Electronics Co., Ltd.	-	-	5,626	3,135
Shin Dong Jin Co., Ltd.	-	3,963	-	461
Others	-	597	-	787
	<u>-</u>	<u>8,904</u>	<u>5,626</u>	<u>4,390</u>
<b>Others</b>				
Chin Hung International Inc.	847	48	-	29,665
Galaxia Communications Co., Ltd	104	-	3	1,209
Others	-	-	-	254
	<u>951</u>	<u>48</u>	<u>3</u>	<u>31,128</u>
	<u>₩ 199,950</u>	<u>₩ 128,119</u>	<u>₩ 72,607</u>	<u>₩ 82,760</u>

<sup>1</sup> Non-trade receivables, loans, accrued income and others are included in other receivables. Non-trade payables, deposits received and others are included in other payables.

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(in millions of Korean won)

	2015							
	Trade receivables		Other receivables <sup>1</sup>		Trade payables		Other payables <sup>1</sup>	
<b>Subsidiaries</b>								
Doomi Construction Co., Ltd.	₩	105,320	₩	11,816	₩	-	₩	5
Gongdeok Gyeongwoo Development Corporation		1,268		24,906		-		-
Hyosung Transworld, Co., Ltd.		-		125		3,358		22,494
Hyosung Vietnam Co., Ltd.		3,952		389		21,129		-
Nantong Hyosung Transformer Co., Ltd.		850		8,565		19,205		42
Hyosung Goodsprings, Inc.		62		45		151		13,980
Hyosung Japan Co., Ltd.		200		-		5,288		146
Hyosung Chemical Fiber(Jiaxing)Co., Ltd.		4,712		197		6,831		98
Hyosung Spandex(Jiaxing) Co., Ltd.		5,790		399		193		-
HICO America Sales & Tech.		2,231		-		17		11,347
Others		24,021		40,421		3,458		15,539
		<u>148,406</u>		<u>86,863</u>		<u>59,630</u>		<u>63,651</u>
<b>Associates</b>								
Shinwha intertek Co. Ltd.		1,629		1		-		-
Hyosung Toyota Corp.		1,756		-		-		-
PT. GELORA MANDIRI MEMBANGUN		-		5,183		-		-
THE KWANGJUILBO		-		7,149		-		-
Others		80		13		195		710
		<u>3,465</u>		<u>12,346</u>		<u>195</u>		<u>710</u>
<b>Other related parties</b>								
Gongdeok Development Corporation		-		4,444		-		16
Galaxia Electronics Co., Ltd.		-		31		3,695		149
Shin Dong Jin Co., Ltd.		-		3,974		287		-
Others		206		666		-		7
		<u>206</u>		<u>9,115</u>		<u>3,982</u>		<u>172</u>
<b>Others</b>								
Chin Hung International Inc.		1,256		259		14,000		36,573
Galaxia SM Co., Ltd.		-		-		3,422		143
Others		-		-		-		622
		<u>1,256</u>		<u>259</u>		<u>17,422</u>		<u>37,338</u>
	₩	<u>153,333</u>	₩	<u>108,583</u>	₩	<u>81,229</u>	₩	<u>101,871</u>

<sup>1</sup> Non-trade receivables, loans, accrued income and others are included in other receivables. Non-trade payables, deposits received and others are included in other payables.

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Fund transactions with related parties for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	2016						
	Loan transactions						Contributions in cash
Beginning balance	Loans	Collection	Loans written off/ other	Translation exchange differences	Ending balance		
<b>Subsidiaries</b>							
Gongdeok Gyeongwoo Development Corporation	₩ 20,361	₩ -	₩ -	₩ -	₩ -	₩ 20,361	₩ -
Galaxia Photonics Co., Ltd. <sup>1</sup>	1,391	4,150	-	-	-	5,541	-
Hyosung Resource (Australia) PTY Ltd.	-	-	-	-	-	-	100
Hyosung sumiden steel cord (Nanjing) Co.,Ltd <sup>2</sup>	-	41,998	(15,088)	(26,910)	-	-	28,549
Baoding Hyosung Tianwei Transformer Co., Ltd <sup>3</sup>	-	14,154	-	-	348	14,502	-
<b>Associates</b>							
THE KWANGJUILBO	7,149	-	-	-	-	7,149	-
PT. Gelora Mandiri Membangun	5,183	-	-	-	162	5,345	-
PT. Papua Agro Lestari	-	-	-	-	-	-	4,111

<sup>1</sup> The Company established ₩ 5,332 million of impairment provision for the loans to Galaxia Photonics Co., Ltd. as at December 31, 2016, and recognized impairment losses amounting to ₩ 5,332 million during the year.

<sup>2</sup> For the year ended December 31, 2016, ₩ 15,088 million of loans was collected and ₩ 26,910 million of loans was converted to equity.

<sup>3</sup>The Company established ₩ 5,966 million of impairment provision for the loans to Baoding Hyosung Tianwei Transformer Co., Ltd. as at December 31, 2016, and recognized impairment losses amounting to ₩ 5,966 million during the year.

**Hyosung Corporation**  
**Notes to the Separate Financial Statements**  
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(in millions of Korean won)

	2015						
	Beginning balance	Loans	Collection	Loan transactions		Ending balance	Contributions in cash
Loans written off				Translation exchange differences			
<b>Subsidiaries</b>							
Hyosung Power Holdings Co., Ltd.	₩ 6,751	₩ -	₩ (7,336)	₩ -	₩ 585	₩ -	₩ -
Gongdeok Gyeongwoo Development Corporation	20,361	-	-	-	-	20,361	-
Galaxia Photonics Co., Ltd.	2,000	396	(1,005)	-	-	1,391	-
Gumoknongsan Co., Ltd.	-	700	(700)	-	-	-	-
Hyosung Resource (Australia)PTY Ltd.	-	-	-	-	-	-	51
Hyosung Steel Cord (Qingdao) Co., Ltd.	-	-	-	-	-	-	39,994
Hyosung T&D India Private Ltd.	-	-	-	-	-	-	11,685
Lloyd Dynamowerke GmbH	-	-	-	-	-	-	379
<b>Associates</b>							
THE KWANGJUILBO	-	7,149	-	-	-	7,149	3,920
PT. Gelora Mandiri Membangun	2,498	2,328	-	-	357	5,183	-
<b>Other related parties</b>							
OpCo GmbH	6,673	-	-	(6,980)	307	-	-

No provisions are made for loans to related parties as at December 31, 2015.

The compensation paid or payable to key management who are executive directors for employee services for the periods ended December 31, 2016 and 2015, consists of:

(in millions of Korean won)

	2016	2015
Salaries and other short-term employee benefits	₩ 8,982	₩ 8,468
Post-employment benefits	980	1,148
	<u>₩ 9,962</u>	<u>₩ 9,616</u>

# Hyosung Corporation

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### December 31, 2016 and 2015

Details of payment guarantees provided by the Company for the financial supports to the related parties as at December 31, 2016, are as follows:

(in millions of Korean won)

			2016		Guaranteed by
	Guaranteed amount	Remark	Amount of Borrowings		
<b>Subsidiaries</b>					
Galaxia Photonics Co., Ltd.	₩ 514	credit of commercial transaction	₩ 514		Praxair
Somesevit Corporation	74,500	Borrowings	74,500		Newstarhaechi Co.,Ltd. and other
Hyosung Spandex(Jiaxing) Co., Ltd.	54,383	Borrowings	54,383		The Export-Import Bank of Korea and others
Hyosung Spandex(GuangDong) Co., Ltd	136,194	Borrowings	113,252		Korea Development Bank and others
Hyosung Spandex(Zhuhai)Co., Ltd.	30,213	Borrowings	15,711		Korea Development Bank and others
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	84,595	Borrowings	84,595		The Export-Import Bank of Korea and others
Hyosung Chemical(Jiaxing) Co., Ltd	32,630	Borrowings	26,587		The Export-Import Bank of Korea and others
Hyosung Composite (GuangDong) Co., Ltd.	3,626	Borrowings	-		KEB HANA Bank
Hyosung Steel Cord (Qingao) Co., Ltd	141,438	Borrowings	126,893		Korea Development Bank and others
Baoding Hyosung Tianwei Transformer Co., Ltd	2,320	Borrowings	1,934		SHINHAN Bank
Nantong Hyosung Transformer Co., Ltd.	173,534	Borrowings	131,952		The Export-Import Bank of Korea and others
Hyosung Vietnam Co., Ltd	552,285	Borrowings	240,702		The Export-Import Bank of Korea and others
Hyosung Istanbul Tekstil Ltd. STI	72,510	Borrowings	72,510		Korea Development Bank and others
Hyosung Wire Luxembourg S.A.	16,732	Borrowings	-		SHINHAN Bank and others
Hyosung USA, Inc.	68,885	Borrowings	7,251		SHINHAN Bank and others
Hyosung Holdings USA, Inc.	65,622	Borrowings	57,766		The Export-Import Bank of Korea and others
HICO America Sales & Tech.	9,668	Borrowings	-		Woori Bank and others
Hyosung Japan Co., Ltd.	147,474	Borrowings	50,155		SHINHAN Bank and others
Hyosung International (HK) LTD.	19,336	Borrowings	8,011		Korea Development Bank and others
Hyosung Singapore PTE Ltd.	12,085	Borrowings	363		Woori Bank
Hyosung Brasil Industria E Comercio De Fibras Ltda	24,170	Borrowings	24,170		The Export-Import Bank of Korea and others
Hyosung T&D India Private Limited	43,075	Borrowings	33,838		The Export-Import Bank of Korea and others
Hyosung DongNai Co, Ltd	482,008	Borrowings	369,801		The Export-Import Bank of Korea and others
Lloyd Dynamowerke GmbH	27,507	Borrowings	19,706		The Export-Import Bank of Korea and others
GST Global GmbH	240,337	Borrowings	232,098		The Export-Import Bank of Korea and others
GST Automotive Safety (Changshu) Co., Ltd.	42,166	Borrowings	34,023		The Export-Import Bank
GST Safety Textiles RO S.R.L.	20,282	Borrowings	20,282		The Export-Import Bank
Hyosung Luxembourg S.A.	10,648	Borrowings	-		SHINHAN Bank
Hyosung Spandex(Quzhou)	12,085	Borrowings	12,085		Korea Development Bank
Hyosung New Material & Hitech(Quzhou)	18,128	Borrowings	18,128		Korea Development Bank
	<u>₩ 2,618,950</u>		<u>₩ 1,831,210</u>		

Other than the payment guarantees above, the Company provides performance guarantees in relation to the contracts which Hyosung Engineering Co., Ltd. and other related parties entered into.

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Details of collateral provided by the Company for the financial supports to the related parties as at December 31, 2016, are as follows:

	Carrying Amount	Secured amount	Secured asset	Remark	Amount of Borrowings	Provided by
<b>Subsidiaries</b>						
Somesevit Corporation	₩ -	₩ -	Equity security	Borrowings	₩ 56,000	Newstarhaechi Co.,Ltd.
Gongdeok Gyeongwoo Development Corporation <sup>1</sup>	974	974	Equity security	Borrowings	129,500	Korea Development Bank and others
<b>Associates</b>						
Pyeongchang Wind Power Co., Ltd	6,510	6,510	Equity security	Borrowings	61,500	Woori Bank and others
Hyosung Toyota Corp. <sup>2</sup>	31,764	3,200	PP&E	Borrowings	-	TOYOTA Motor KOREA Co., Ltd
<b>Other related parties</b>						
Chin Hung International Inc. <sup>3</sup>	155,320	155,320	Equity security	-	-	Committee of Creditor Banks of Chin Hung International Inc.
	<u>₩ 194,568</u>	<u>₩ 166,004</u>			<u>₩ 247,000</u>	

<sup>1</sup> Other than the collateral above, the Company has an obligation to complete the construction and provides a cash deficiency support agreement amounting ₩ 160,000 million in relation to Project Financing construction of Gongdeok Gyeongwoo Development Corporation (Note 40).

<sup>2</sup> Certain amounts of the property, plant and equipment are provided as collaterals to TOYOTA Motor KOREA Co., Ltd. in relation to the inventory financing of Hyosung Toyota Corp (Note 15 and 40).

<sup>3</sup> The Equity shares of Chin Hung International Inc. are provided as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc.(Note 12 and 40).

**22. Trade Payables and Other Payables**

Trade payables and other payables as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
Trade payables	₩ 697,633	₩ 654,786
Other payables	473,224	349,657
Long-term other payables	57,992	61,997
	<u>₩ 1,228,849</u>	<u>₩ 1,066,440</u>

**Hyosung Corporation**  
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Details of other payables as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
<b>Other payables</b>		
Non-trade payables	₩ 356,938	₩ 238,253
Accrued expenses	53,448	55,082
Withholdings	20,157	22,267
Deposits received	42,681	34,055
	473,224	349,657
<b>Long-term other payables</b>		
Non-trade payables	7,098	8,134
Accrued expenses	6,465	5,942
Deposits received	44,429	47,921
	57,992	61,997
	₩ 531,216	₩ 411,654

The fair value of long-term other payables is calculated by discounting nominal value of expected future cash inflows at a discount rate which reflects credit risk .

	<b>2016</b>	<b>2015</b>
Discount rate	1.80%~ 5.00%	2.50%~5.00%

**23. Borrowings**

Borrowings as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Short-term borrowings	₩ 305,510	₩ 672,559
Collateralized borrowings <sup>1</sup>	174,312	792,196,250
Long-term borrowings	939,425	1,369,990
Debentures	898,857	836,993
	2,318,104	3,075,792
Less: current portion	(1,248,896)	(1,682,270)
	₩ 1,069,208	₩ 1,393,522

Certain amounts of available-for-sale financial assets and the property, plant and equipment are provided as collaterals to creditors for above borrowings (Note 12, 15 and 40).

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<sup>1</sup> The Company sells trade receivables denominated in foreign currency at a discount to the financial institutions for the periods ended December 31, 2016 and 2015. The Company may retain an obligation to compensate a financial institution for debtors' failure to make payment when they become due, an obligation known as a 'recourse obligation'. Recourse obligations related to the sales of receivables with recourse are accounted for as collateralized borrowings (Notes 7 and 40).

Details of carrying amount of short-term borrowings as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>Creditor</b>	<b>Latest Maturity date</b>	<b>Annual interest rate (%) December 31, 2016</b>		<b>2016</b>		<b>2015</b>
<b>Short-term borrowings denominated in Korean won</b>							
General loan	The Export-Import Bank of Korea	2017-04-24	2.55~2.59	₩	6,666	₩	78,619
Credit line, Revolving loan	-	-	-		-		42,000
<b>Short-term borrowings denominated in foreign currency</b>							
General loan	Shinhan Bank	2017-01-31	2.34		12,085		103,136
Credit line, Revolving loan	-	-	-		-		55,084
Other	Woori Bank and others	2017-12-22	0.03~2.09		461,071		589,892
				₩	<u>479,822</u>	₩	<u>868,731</u>

Details of carrying amount of long-term borrowings as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>Creditor</b>	<b>Latest Maturity date</b>	<b>Annual interest rate (%) December 31, 2016</b>		<b>2016</b>		<b>2015</b>
<b>Long-term borrowings denominated in Korean won</b>							
General loan	Korea Development Bank and others	2027-12-15	1.20~3.88		187,359		334,947
Facility loan	Korea Development Bank and others	2023-07-27	1.75~4.12		505,340		773,000
Other <sup>2</sup>	-	-	-		-		79
<b>Long-term borrowings denominated in foreign currency</b>							
General loan	China Bank and others	2018-11-12	1.94~3.32		77,536		97,964
Facility loan	Standard Chartered Korea and others	2017-11-14	2.15~2.58		169,190		164,080
Total					<u>939,425</u>		<u>1,370,070</u>
Less: current portion					(629,074)		(553,539)
Present value discounts					-		(2)
				₩	<u>310,351</u>	₩	<u>816,529</u>

# Hyosung Corporation

## Notes to the Separate Financial Statements

### December 31, 2016 and 2015

Details of carrying amount of debentures as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	Creditor	Latest Maturity date	Annual interest rate (%) December 31, 2016	2016	2015
<b>Fixed interest rate Korean won debenture</b>	245-2 <sup>nd</sup> Public bond	-	5.25	-	60,000
	246-2 <sup>nd</sup> Public bond	-	4.94	-	60,000
	248-2 <sup>nd</sup> Public bond	-	5.03	-	50,000
	251-2 <sup>nd</sup> Public bond	2017-02-07	4.71	60,000	60,000
	253-1 <sup>st</sup> Public bond	-	3.45	-	90,000
	253-2 <sup>nd</sup> Public bond	2018-02-21	3.75	30,000	30,000
	254 Private bond	2017-05-02	4.50	30,000	30,000
	255 Private bond	-	3.80	-	30,000
	256-1 <sup>st</sup> Public bond	2017-02-25	3.05	50,000	50,000
	256-2 <sup>nd</sup> Public bond	2018-02-25	3.28	100,000	100,000
	256-3 <sup>rd</sup> Public bond	2020-02-25	3.76	50,000	50,000
	257-1 <sup>st</sup> Public bond	2018-06-26	2.90	130,000	130,000
	257-2 <sup>nd</sup> Public bond	2020-06-26	3.97	70,000	70,000
	259-1 <sup>st</sup> Private bond	2019-04-25	2.78	102,000	-
	259-2 <sup>nd</sup> Private bond	2021-04-25	3.43	98,000	-
	260-1 <sup>st</sup> Public bond	2019-12-27	2.70	120,000	-
	260-2 <sup>nd</sup> Public bond	2019-12-27	3.44	30,000	-
	<b>Fixed interest rate Foreign currency debenture</b>	258 Private bond	2018-12-27	0.70	31,104
Total				901,104	839,160
Less: current portion				(140,000)	(260,000)
Discount on bonds payable				(2,247)	(2,167)
				₩ 758,857	₩ 576,993

## 24. Post-employment Benefits

### 24.1 Defined Benefit Plan

Details of net defined benefit liabilities recognized in the separate statements of financial position as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
Present value of defined benefit obligations	₩	355,941	₩	322,301
Fair value of plan assets <sup>1</sup>		(324,277)		(301,911)
Net defined benefit liabilities	₩	31,664	₩	20,390

<sup>1</sup> The contributions to the National Pension Fund of ₩ 432 million are included in the fair value of plan assets as at December 31, 2016 (2015: ₩ 446 million).

**Hyosung Corporation**  
**Notes to the Separate Financial Statements**  
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The amounts recognized in the separate statements of profit or loss for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Current service cost	₩	48,045	₩	46,119
Interest expense		7,012		7,120
Past service cost and gains or losses on settlements		-		(1,965)
Interest income		(8,650)		(8,156)
	₩	<u>46,407</u>	₩	<u>43,118</u>

Line items including total expenses in the separate statements of profit or loss for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Cost of sales	₩	28,329	₩	24,229
Selling and administrative expenses		15,905		15,962
Research and development expenses		2,173		2,927
	₩	<u>46,407</u>	₩	<u>43,118</u>

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Movements in the defined benefit obligations for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Beginning balance	₩	322,301	₩	283,198
Current service cost		48,045		46,119
Interest expense		7,012		7,120
Past service cost and gains or losses on settlements		-		(1,965)
Benefit payments		(18,623)		(30,795)
Remeasurements:				
Actuarial loss from change in demographic assumptions		1,009		13,731
Actuarial loss (gain) from change in financial assumptions		(8,184)		17,322
Actuarial loss (gain) from experience adjustments		4,437		(12,429)
Transfer from(to) associates		(56)		-
Ending balance	₩	<u>355,941</u>	₩	<u>322,301</u>

Movements in the fair value of plan assets for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Beginning balance	₩	301,911	₩	243,910
Interest income		8,650		8,156
Employer's contributions		31,100		76,400
Benefit payments		(13,772)		(23,168)
Remeasurements		(3,578)		(3,387)
Transfer from(to) associates		(34)		-
Ending balance	₩	<u>324,277</u>	₩	<u>301,911</u>

Plan assets as at December 31, 2016 and 2015, consist of:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
	Amount	In %	Amount	In %
Deposits	₩ 223,620	68.96%	₩ 183,527	60.79%
Debt instruments	100,657	31.04%	118,384	39.21%
	<u>₩ 324,277</u>	<u>100%</u>	<u>₩ 301,911</u>	<u>100%</u>

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Remeasurements of net defined benefit liabilities recognized as other comprehensive income (expenses) for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Before income tax effects	₩	(840)	₩	(22,011)
Income tax effects		203		5,327
After income tax effects	₩	<u>(637)</u>	₩	<u>(16,684)</u>

Accumulated remeasurements of net defined benefit liabilities recognized as other comprehensive income (expenses) is ₩ 60,336 million (2015: ₩ 59,700 million) as at December 31, 2016.

The significant actuarial assumptions as at December 31, 2016 and 2015, are as follows:

	<b>2016</b>	<b>2015</b>
Discount rate	2.82%	2.76%
Salary growth rate	2.67%	2.65%

The sensitivity of the defined benefit obligation to changes in the principal assumptions is

	<b>Changes in assumption</b>	<b>Impact on defined benefit obligation</b>
Discount rate	1.0% increase/decrease	8.2% decrease/ 9.8% increase
Salary growth rate	1.0% increase/decrease	9.7% increase / 8.3% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the separate statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The Company reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund.

Expected contributions to post-employment benefit plans for the year ending December 31, 2017, are ₩ 40,640 million and expected balance of plan assets are ₩ 354,703 million as at December 31, 2017.

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The expected maturity analysis of undiscounted pension benefits as at December 31, 2016, is as follows:

<i>(in millions of Korean won)</i>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years<sup>1</sup></b>	<b>Total</b>
Pension benefits	₩ 13,343	₩ 17,756	₩ 60,081	₩ 677,781	₩ 768,961

<sup>1</sup> The amount includes executives and contract employees.

The weighted average duration of the defined benefit obligations is 10.8 years.

**24. 2 Defined Contribution Plan**

The expense recognized in the current period in relation to defined contribution plan was ₩ 3,586 million (2015: ₩ 3,185 million).

**25. Tax Expense and Deferred Tax**

Income tax expense for the periods ended December 31, 2016 and 2015, consists of:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Current tax		
Current tax on profits for the year	₩ 165,492	₩ 74,737
Adjustments in respect of prior years	(2,605)	(12,071)
Total current tax	<u>162,887</u>	<u>62,666</u>
Deferred tax		
Origination and reversal of temporary differences	(76,019)	(4,119)
Total deferred tax	<u>(76,019)</u>	<u>(4,119)</u>
Income tax expense	<u>₩ 86,868</u>	<u>₩ 58,547</u>

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The tax on the company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Profit before income tax expense	₩	625,240	₩	376,273
Tax calculated at tax rates	₩	150,846	₩	90,596
Tax effects of				
Income not subject to tax		(4,930)		(4,579)
Expenses not deductible for tax purposes		15,477		20,156
Unrecognized deferred income tax assets		7,534		7,033
Adjustment in respect of prior years		(2,605)		(12,071)
Tax credits		(33,681)		(42,651)
Others		(45,773)		63
Income tax expense	₩	86,868	₩	58,547

The tax effect relating to components of other comprehensive income (expenses) for the periods ended December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>			<b>2015</b>		
	<b>Before tax</b>	<b>Tax Effect</b>	<b>After tax</b>	<b>Before tax</b>	<b>Tax Effect</b>	<b>After tax</b>
Loss(Gain) on valuation of available-for-sale securities	₩ (21,305)	₩ 5,156	₩ (16,149)	₩ (13,632)	₩ 3,299	₩ (10,333)
Remeasurements of net defined benefit liabilities	79,599	(19,263)	60,336	78,760	(19,060)	59,700
	₩ 58,294	₩ (14,107)	₩ 44,187	₩ 65,128	₩ (15,761)	₩ 49,367

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The analysis of deferred tax assets and deferred tax liabilities as at December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
<b>Deferred tax assets</b>		
Deferred tax asset to be recovered after more than 12 months	₩ 213,270	₩ 196,920
Deferred tax asset to be recovered within 12 months	37,427	37,549
	<u>250,697</u>	<u>234,469</u>
<b>Deferred tax liabilities</b>		
Deferred tax liability to be recovered after more than 12 months	(407,053)	(465,223)
Deferred tax liability to be recovered within 12 months	(1,800)	(1,767)
	<u>(408,853)</u>	<u>(466,990)</u>
Deferred tax assets (liabilities), net	<u>₩ (158,156)</u>	<u>₩ (232,521)</u>

The movements in the deferred income tax account for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Beginning balance	₩ (232,521)	₩ (231,401)
Tax charged to the statement of profit or loss	76,019	4,119
Tax charged (credited) to components of other comprehensive income	(1,654)	(5,239)
Ending balance	<u>₩ (158,156)</u>	<u>₩ (232,521)</u>

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The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(in millions of Korean won)

	2016			
	Beginning balance	Statement of profit or loss	Other comprehensive income	Ending balance
<b>Deferred tax liabilities</b>				
Gains on revaluation of land	₩ (283,477)	₩ -	₩ -	₩ (283,477)
Investment in subsidiaries and associates	(82,344)	53,592	-	(28,752)
Defined benefit pension plan assets	(71,702)	(7,535)	866	(78,371)
Reserve for research and human resource development	(23,393)	11,293	-	(12,100)
Gain from fire insurance policy	(546)	440	-	(106)
Others	(5,528)	(519)	-	(6,047)
	<u>(466,990)</u>	<u>57,271</u>	<u>866</u>	<u>(408,853)</u>
<b>Deferred tax assets</b>				
Available-for-sale financial assets	88,730	(221)	(1,857)	86,652
Post-employment benefit obligation	71,702	10,102	(663)	81,141
Provision for receivables in excess of tax limit	19,414	2,510	-	21,924
Government grants	5,425	(653)	-	4,772
Loss on valuation of inventories	9,302	(2,618)	-	6,684
Impairment loss on property, plant and equipment	6,442	6,426	-	12,868
Provision for guarantees	1,536	(1,536)	-	-
Accrued compensated absences	4,003	179	-	4,182
Provision for warranties	8,943	1,971	-	10,914
Provision for construction loss	4,318	(761)	-	3,557
Long-term employment allowance	1,438	126	-	1,564
Others	13,216	3,223	-	16,439
	<u>234,469</u>	<u>18,748</u>	<u>(2,520)</u>	<u>250,697</u>
	<u>₩ (232,521)</u>	<u>₩ 76,019</u>	<u>₩ (1,654)</u>	<u>₩ (158,156)</u>

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	2015			
	Beginning balance	Statement of profit or loss	Other comprehensive income	Ending balance
<b>Deferred tax liabilities</b>				
Gains on revaluation of land	₩ (285,149)	₩ 1,672	₩ -	₩ (283,477)
Investment in subsidiaries and associates	(82,522)	178	-	(82,344)
Defined benefit pension plan assets	(58,910)	(13,612)	820	(71,702)
Reserve for research and human resource development	(33,880)	10,487	-	(23,393)
Gain from fire insurance policy	(1,071)	525	-	(546)
Others	(5,199)	(329)	-	(5,528)
	<u>(466,731)</u>	<u>(1,079)</u>	<u>-</u>	<u>(466,990)</u>
<b>Deferred tax assets</b>				
Available-for-sale financial assets	100,175	(879)	(10,566)	88,730
Post-employment benefit obligation	60,839	6,356	4,507	71,702
Provision for receivables in excess of tax limit	17,007	2,407	-	19,414
Government grants	9,476	(4,051)	-	5,425
Loss on valuation of inventories	7,258	2,044	-	9,302
Impairment loss on property, plant and equipment	4,013	2,429	-	6,442
Provision for guarantees	8,312	(6,776)	-	1,536
Accrued compensated absences	4,103	(100)	-	4,003
Provision for warranties	7,951	992	-	8,943
Provision for construction loss	1,857	2,461	-	4,318
Long-term employment allowance	1,418	20	-	1,438
Others	12,921	295	-	13,216
	<u>235,330</u>	<u>5,198</u>	<u>(6,059)</u>	<u>234,469</u>
	<u>₩ (231,401)</u>	<u>₩ 4,119</u>	<u>₩ (5,239)</u>	<u>₩ (232,521)</u>

The Company does not recognize deferred tax assets (liabilities) if it is not probable that the temporary difference will reverse in the foreseeable future, and also the Company does not recognize deferred tax assets (liabilities) for taxable temporary differences associated with investments in subsidiaries and associates, which deferred tax assets (liabilities) are unrealizable due to low potential dividend payment and disposal of investments in the foreseeable future. Therefore, the Company did not recognize deferred income tax assets of ₩ 102,139 million (2015: ₩ 95,351 million) as at December 31, 2016.

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**26. Other Liabilities**

Details of other liabilities as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
<b>Other current liabilities</b>				
Advances from customers	₩	216,281	₩	147,328
Unearned revenues		2,221		369
		<u>218,502</u>		<u>147,697</u>
<b>Other non-current liabilities</b>				
Unearned revenues		4,711		6,036
Provision for warranties <sup>1</sup>		45,099		36,952
Provision for guarantees <sup>2</sup>		5,499		6,348
		<u>55,309</u>		<u>49,336</u>
	₩	<u>273,811</u>	₩	<u>197,033</u>

<sup>1</sup> The Company accrued provision for warranties in relation to construction contract for the foreseeable expenses; such as, defect repairs based on past experience.

<sup>2</sup> The Company accrued provision for guarantees in case of liquidation of subsidiary which the Company provides payment guarantees and have an obligation to supplement funds for the foreseeable expenses (Note 40).

Details and changes in provisions for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		
	<b>Provision for warranties</b>	<b>Provision for guarantees</b>	<b>Total</b>
Beginning balance	₩ 36,952	₩ 6,348	₩ 43,300
Additional provisions	27,259	8,975	36,234
Used during the year	(19,112)	(9,824)	(28,936)
Ending balance	<u>₩ 45,099</u>	<u>₩ 5,499</u>	<u>₩ 50,598</u>
<i>(in millions of Korean won)</i>	<b>2015</b>		
	<b>Provision for warranties</b>	<b>Provision for guarantees</b>	<b>Total</b>
Beginning balance	₩ 32,856	₩ 34,348	₩ 67,204
Additional provisions	18,046	-	18,046
Used during the year	(13,950)	(28,000)	(41,950)
Ending balance	<u>₩ 36,952</u>	<u>₩ 6,348</u>	<u>₩ 43,300</u>

**27. Share Capital**

The Company's total number of authorized shares is 200,000,000 shares and the total number of ordinary shares issued is 35,117,455 shares (2015: 35,117,455 shares) with a par value of ₩5,000 per share. There is no change in capital stock for the periods ended December 31, 2016 and 2015.

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**28. Retained Earnings**

Retained earnings as at December 31, 2016 and 2015, consist of:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Legal reserves <sup>1</sup>	₩ 42,402	₩ 30,758
Discretionary reserves		
Research and development reserves <sup>2</sup>	96,667	140,000
Facility reserves	2,121,000	1,905,000
Retained earnings before appropriation	539,334	302,350
	<u>₩ 2,799,403</u>	<u>₩ 2,378,108</u>

<sup>1</sup> The Commercial Code of the Republic of Korea requires the Company to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment, but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

<sup>2</sup> The Company appropriates a certain portion of its retained earnings as reserves for research and development which are provided in order to obtain tax benefits under the Special Tax Treatment Control Law. Among these reserves, the reversed amount according to the terms of related tax laws may be distributed.

# Hyosung Corporation

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### December 31, 2016 and 2015

The appropriation of retained earnings for the periods ended December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Unappropriated retained earnings carried over from prior year	₩ 1,599	₩ 1,308
Remeasurements of net defined benefit liabilities	(637)	(16,684)
Profit for the period	538,372	317,726
Transfers such as discretionary reserves		
Research and development reserves	46,666	43,333
Facility reserves		-
Retained earnings available for appropriation	<u>586,000</u>	<u>345,683</u>
Appropriation of retained earnings		
Earned profit reserves	16,634	11,644
Research and development reserves		-
Facility reserves	401,000	216,000
Dividends (Cash dividend (%):	166,343	116,440
Ordinary share:		
₩5,000 (100%) in 2016		
₩3,500 (70%) in 2015)		
Unappropriated retained earnings to be carried forward	<u>₩ 2,023</u>	<u>₩ 1,599</u>

The appropriation of retained earnings for the year ended December 31, 2016, is expected to be appropriated at the shareholders' meeting on March 17, 2017. The appropriation date for the year ended December 31, 2015, was March 18, 2016.

## 29. Other Components of Equity

Other components of equity as at December 31, 2016 and 2015, consist of:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Other capital surplus	₩ 330,210	₩ 330,210
Treasury shares <sup>1</sup>	(34,204)	(34,204)
Gain (Loss) on valuation of available-for-sale financial assets	16,149	10,333
Currency translation differences	(755)	(413)
	<u>₩ 311,400</u>	<u>₩ 305,926</u>

<sup>1</sup> The 1,848,851 treasury shares were acquired through a merger in 1998 and are expected to be sold in the future.

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Changes in accumulated other comprehensive income for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	<b>2016</b>			
	<b>Beginning balance</b>	<b>Increase (Decrease)</b>	<b>Reclassification to profit or loss</b>	<b>Ending balance</b>
Available-for-sale financial assets	₩ 10,333	₩ 8,947	₩ (3,131)	₩ 16,149
Currency translation differences	(413)	(341)	-	(754)
	<u>₩ 9,920</u>	<u>₩ 8,606</u>	<u>₩ (3,131)</u>	<u>₩ 15,395</u>

(in millions of Korean won)

	<b>2015</b>			
	<b>Beginning balance</b>	<b>Increase (Decrease)</b>	<b>Reclassification to profit or loss</b>	<b>Ending balance</b>
Available-for-sale financial assets	₩ (22,762)	₩ 33,095	-	₩ 10,333
Currency translation differences	(1,562)	1,149	-	(413)
	<u>₩ (24,324)</u>	<u>₩ 34,244</u>	<u>₩ -</u>	<u>₩ 9,920</u>

Above changes in accumulated other comprehensive income are net of tax (Note 25).

### 30. Revenue

Details of revenue for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	<b>2016</b>	<b>2015</b>
Merchandise	₩ 2,041,039	₩ 2,213,641
Finished goods	4,535,523	4,408,618
Construction	1,042,399	963,856
Housing	127,317	240,148
Other	228,063	206,847
	<u>₩ 7,974,341</u>	<u>₩ 8,033,110</u>

### 31. Construction Contract

Changes in the remaining balance of construction contracts for the periods ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	<b>2016</b>			
	<b>Beginning balance</b>	<b>Changes<sup>1</sup></b>	<b>Recognized construction revenue</b>	<b>Ending balance</b>
Construction	₩ 3,390,161	₩ 1,731,226	₩ (828,580)	₩ 4,292,807
Heavy industrial	631,682	239,614	(341,371)	529,925
	<u>₩ 4,021,843</u>	<u>₩ 1,970,840</u>	<u>₩ (1,169,951)</u>	<u>₩ 4,822,732</u>

<sup>1</sup> In 2016, the increase in subcontracted amount, such as revenue from initial contracts, and decrease in subcontracted amount, such as alterations in the original contract work, amount to ₩ 2,151,525 million and ₩ 180,685 million, respectively.

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(in millions of Korean won)

	<b>2015</b>			
	<b>Beginning balance</b>	<b>Changes<sup>1</sup></b>	<b>Recognized construction revenue</b>	<b>Ending balance</b>
Construction	₩ 1,650,077	₩ 2,557,826	₩ (817,742)	₩ 3,390,161
Heavy industrial	624,062	394,266	(386,646)	631,682
	<u>₩ 2,274,139</u>	<u>₩ 2,952,092</u>	<u>₩ (1,204,388)</u>	<u>₩ 4,021,843</u>

<sup>1</sup> In 2015, the increase in subcontracted amount, such as revenue from initial contracts, and decrease in subcontracted amount, such as alterations in the original contract work, amount to ₩ 2,978,221 million and ₩ 26,129 million, respectively.

Details of recognized construction profit or loss for ongoing construction contracts as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	<b>2016</b>				
	<b>Accumulated construction revenue</b>	<b>Accumulated construction cost</b>	<b>Accumulated profit or loss</b>	<b>Advance received</b>	<b>Retentions<sup>1</sup></b>
Construction	₩ 1,102,754	₩ 990,882	₩ 111,872	₩ 1,388	₩ -
Heavy industrial	1,255,325	1,215,340	39,985	6,398	48,919
	<u>₩ 2,358,079</u>	<u>₩ 2,206,222</u>	<u>₩ 151,857</u>	<u>₩ 7,786</u>	<u>₩ 48,919</u>

<sup>1</sup> In the separate statement of financial position, the amount of retention is recorded as long-term deposits provided.

(in millions of Korean won)

	<b>2015</b>				
	<b>Accumulated construction revenue</b>	<b>Accumulated construction cost</b>	<b>Accumulated profit or loss</b>	<b>Advance received</b>	<b>Retentions<sup>1</sup></b>
Construction	₩ 1,518,949	₩ 1,404,856	₩ 114,093	₩ 42	₩ -
Heavy industrial	1,034,223	1,013,034	21,189	2,282	45,477
	<u>₩ 2,553,172</u>	<u>₩ 2,417,890</u>	<u>₩ 135,282</u>	<u>₩ 2,324</u>	<u>₩ 45,477</u>

<sup>1</sup> In the separate statement of financial position, the amount of retention is recorded as long-term deposits provided.

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Amounts due from and due to customers for contract work as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	2016		2015	
	Due from customers <sup>1</sup>	Due to customers <sup>2</sup>	Due from customers <sup>1</sup>	Due to customers <sup>2</sup>
Construction	₩ 54,143	₩ 46,748	₩ 21,474	₩ 45,341
Heavy industrial	59,714	45,233	54,035	56,969
	<u>₩ 113,857</u>	<u>₩ 91,981</u>	<u>₩ 75,509</u>	<u>₩ 102,310</u>

<sup>1</sup> Amounts due from customers for contract work are recognized as Due from customers for contract work in the separate statement of financial position.

<sup>2</sup> Amounts due to customers for contract work are recognized as Due to customers for contract work in the separate statement of financial position.

Provisions of loss on construction amounting to ₩ 14,700 million (2015: 17,842 million) as at December 31, 2016 are included in amounts due from and due to customers for contract work.

Details of provisions loss on construction as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	2016	2015
Taejeon-dong APT, Gwangju	₩ 8,055	₩ -
Pakistan Gujarat project	1,285	4,432
India Mokokchung & Melriat project	1,816	3,152
Yongdoodongmyun construction of road	251	1,898
Algeria Boufarik project	679	1,657
India JHARKHAND project	775	1,049
Telecom center construction	114	1,044
Welfare facilities construction in downtown	120	1,025
FED Pyeongtaek construction and others	1,605	3,585
	<u>₩ 14,700</u>	<u>₩ 17,842</u>

Provisions of loss on construction are included in amounts due from and due to customers for contract work in the separate statement of financial position.

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Contractual information that contract revenue for the year ended December 31, 2016 is more than 5% of previous revenues, are as follows:

(in millions of Korean won)

	Contract date	Contractual completion date	Percentage -of- completion	Due from customers		Trade receivables (receivables from construction contracts)	
				Gross amount	Accumulated impairment loss	Gross amount	Provision for impairment
Urban Redevelopment Projects on the 4th Yongsan Region, Seoul	December, 2015	November, 2020	0.81%	₩ 4,945	₩ -	₩ -	₩ -

Details of contract that uses percentage-of-completion measured by reference to the contract costs incurred up to date as a percentage of total estimated costs for each operating segments are as follows:

(in millions of Korean won)

	Provisions for expected losses	Changes in construction profit or loss		Changes in estimated total contract costs		Due from customers	
		Changes in accounting estimate	Error correction	Changes in accounting estimate	Error correction	Gross amount	Accumulated impairment loss
Construction	₩ 8,553	₩ 23,941	₩ -	₩ 75,056	₩ -	₩ 54,143	₩ -
Heavy industrial	6,147	(3,166)	-	2,869	-	59,714	-
	₩ 14,700	₩	₩ -	₩ 77,925	₩ -	₩ 113,857	₩ -

**Changes in estimated total contract revenue and costs**

Details of changes in estimated total contract costs, profits or loss for the year and the succeeding year, and the impact on due from customers for contract work are as follows:

(in millions of Korean won)

	Changes in estimated total contract revenue	Changes in estimated total contract cost	Impact on profit or loss for the year	Impact on profit or loss for the succeeding year	Changes in due from customers for contract work <sup>1&amp;2</sup>
Construction	₩ 91,983	₩ 75,056	₩ 23,941	₩ (7,014)	₩ 23,941
Heavy industrial	4,405	2,869	(3,166)	4,702	(3,166)
	₩ 96,388	₩ 77,925	₩ 20,775	₩ (2,312)	₩ 20,775

<sup>1</sup> The impact on recognition of housing revenue are included.

<sup>2</sup> The impact on sites of due to customers for contract work are included.

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The impact on profit or loss for the year and the succeeding year is determined based on total contract costs, which are estimated based on the circumstances present from the start of the contract to the end of current year, and the estimated contract revenue as at December 31, 2016. The total contract costs and contract revenue may change in the future.

When the estimated total contract costs increase by 5%, profit before income tax and net assets before income tax effects decrease by ₩ 131,228 million.

**32. Breakdown of Expenses by Nature**

Cost of sales, selling and administrative expenses and research and development expenses by nature for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Changes in inventories of finished goods and work in process and others	₩ 25,914	₩ 30,776
Sales of merchandise	1,936,132	2,098,519
Raw materials and consumables used	2,529,136	2,637,367
Employee benefits expenses (Note 33)	648,809	616,659
Depreciation and amortization	261,496	240,398
Electricity expense	179,025	200,941
Export expense	220,782	213,907
Fuel expense	51,940	83,193
Service expense	161,803	183,937
Outsourcing expense	902,529	817,251
Others	423,582	436,812
Total <sup>1</sup>	₩ 7,341,148	₩ 7,559,760

<sup>1</sup> Total of cost of sales, selling and administrative expenses and research and development expenses in the separate statements of profit or loss.

**33. Employee Benefits Expenses**

Employee benefits expenses for the periods ended December 31, 2016 and 2015, consist of:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
Salaries	₩ 527,722	₩ 501,134
Employee benefits	71,094	69,222
Pension costs - defined contribution plans	3,586	3,185
Pension costs - defined benefit plans (Note 24)	46,407	43,118
	₩ 648,809	₩ 616,659

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**34. Selling and Administrative Expenses**

Selling and administrative expenses for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Salaries	₩	138,629	₩	132,857
Post-employment benefits		17,489		17,544
Employee benefits		13,457		13,545
Training		1,695		1,737
Transportation		16,638		15,222
Communications		3,626		3,911
Taxes and dues		9,791		9,360
Rental expenses		18,947		19,147
Depreciation		8,751		6,452
Amortization		8,840		8,757
Bad debt expenses		16,002		3,678
Operating expenses for overseas branches		21,642		19,306
Advertising expense		29,114		30,228
Freight and storage expenses		24,619		25,572
Commission expenses		36,056		38,891
Export expenses		220,782		213,907
Others		49,281		48,776
	₩	635,359	₩	608,890

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**35. Other Income and Other Expenses**

Details of other income and other expenses for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
<b>Other operating income</b>		
Rental income	₩ 2,325	₩ 2,136
Gain on derivative transactions	546	36
Gain on valuation of derivatives	143	-
Gain on disposal of property, plant and equipment	220	8,751
Gain on disposal of investment property	-	3,520
Gain on disposal of intangible assets	-	868
Dividend income	189,890	132,765
Miscellaneous income	54,399	50,343
	<u>247,523</u>	<u>198,419</u>
<b>Other operating expenses</b>		
Loss on disposal of trade receivables	1,545	1,852
Loss on disposal of property, plant and equipment	761	286
Impairment loss on property, plant and equipment	25,984	10,362
Loss on disposal of investment property	1,200	523
Loss on disposal of intangible assets	450	1,175
Other bad debt expenses	25,372	1,885
Donations	4,521	5,067
Additional provisions for guarantees	8,975	-
Commissions	10,309	7,173
Miscellaneous losses	26,985	62,662
	<u>106,102</u>	<u>90,986</u>
	<u>₩ 141,421</u>	<u>₩ 107,433</u>

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**36. Finance Income and Expenses**

Details of finance income and expenses for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>	<b>2015</b>
<b>Finance income</b>		
Interest income		
Loans and receivables	₩ 4,236	₩ 3,759
Available-for-sale financial assets	5	13
Gain on foreign currency transactions	125,356	136,816
Gain on foreign currency translation	116,406	67,873
Gain on derivative transactions	27,958	20,689
Gain on valuation of derivatives	4,669	1,694
Gain on disposal of financial assets		
Available-for-sale financial assets	13,532	1,650
Investments in subsidiaries and associates	-	41,644
	<u>292,162</u>	<u>274,138</u>
<b>Finance expenses</b>		
Interest expenses		
Financial liabilities at amortized cost	82,820	92,590
Other financial liabilities	4,525	6,097
Loss on foreign currency transactions	165,441	142,910
Loss on foreign currency translation	117,398	123,976
Loss on derivative transactions	16,851	42,432
Loss on valuation of derivatives	20,806	33,033
Loss on disposal of financial assets		
Available-for-sale financial assets	221	575
Investments in subsidiaries and associates	2,770	9,326
Impairment loss of financial assets		
Available-for-sale financial assets	1,492	1,310
Losses related to available-for-sale financial assets	-	-
	<u>412,324</u>	<u>452,249</u>
	<u>₩ (120,162)</u>	<u>₩ (178,111)</u>

The Company recognizes income and expenses related to exchange differences as finance income and expenses.

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**37. Earnings per Share**

Basic earnings per ordinary share for the periods ended December 31, 2016 and 2015, is as follows:

	<b>2016</b>	<b>2015</b>
Profit attributable to the ordinary equity holders <sup>1</sup>	₩ 538,372million	₩ 317,726 million
Weighted average number of ordinary shares outstanding <sup>2</sup>	33,268,604	33,268,604
Earnings per share	<u>₩ 16,183</u>	<u>₩ 9,550</u>

<sup>1</sup> Profit attributable to the ordinary equity holders corresponds to the Company's profit.

<sup>2</sup> Weighted average number of ordinary shares outstanding for the periods ended December 31, 2016 and 2015, is 33,268,604 and there has been no change.

**38. Dividends**

The dividends paid in 2016 and 2015 were ₩ 116,440 million (₩3,500 per share) and ₩ 66,537 million (₩2,000 per share), respectively.

A dividend in respect of the year ended December 31, 2016, of ₩ 5,000 per share, amounting to a total dividend of ₩ 166,343 million, is to be proposed to shareholders at the annual general meeting on March 17, 2017. These separate financial statements do not reflect this dividend payable.

**39. Cash Generated from Operations**

*(a) Cash generated from operations*

Details of cash generated from operations for the periods ended December 31, 2016 and 2015, are as follows:

# Hyosung Corporation

## Notes to the Separate Financial Statements

### December 31, 2016 and 2015

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Profit before income tax	₩	625,240	₩	376,273
Adjustments for				
Interest income and expense, net		83,104		94,915
Gain (Loss) on foreign currency translation, net		992		56,103
Gain (Loss) on valuation of derivatives, net		15,994		31,339
Depreciation and amortization		261,496		240,398
Loss (Gain) on disposal of property, plant, equipment, intangible assets, and investment property		2,191		(11,155)
Impairment loss on property, plant, equipment, intangible assets, and investment property		25,984		10,362
Bad debt expense and other bad debt expense		41,374		5,563
Gain (Loss) on disposal of financial assets, net		(10,541)		(33,393)
Impairment loss on financial assets		1,492		1,310
Impairment loss on investment in subsidiaries and associates		29,212		26,399
Dividend income		(189,890)		(132,765)
Post-employment benefits		46,407		43,118
Additional provisions		36,234		18,046
Loss on disposal of trade receivables		1,545		1,852
Long-term employee benefits		1,660		736
Others		1,047		97
Changes in operating assets and liabilities				
Decrease in trade receivables		75,640		53,137
Decrease in inventories		(4,427)		48,052
Decrease (increase) in other receivables		(27,915)		2,125
Decrease (increase) in due from customers for contract work		(35,898)		93,972
Decrease in other financial assets		1,675		8,235
Decrease in other assets		2,747		9,590
Increase (decrease) in Currency translation differences		(342)		1,149
Increase (decrease) in trade payables		47,234		(82,872)
Increase in other payables		220,223		29,975
Increase (decrease) in due to customers for contract work		(20,154)		1,251
Decrease in other financial liabilities		(22,808)		(26,607)
Payment of warranty expenses		(19,112)		(13,950)
Payment of defined benefits		(4,873)		(7,627)
Contributions of plan assets		(31,100)		(76,400)
Cash generated from operations	₩	1,154,431	₩	769,228

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**Notes to the Separate Financial Statements**  
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*(b) Non-cash transactions*

*(in millions of Korean won)*

	<b>2016</b>	<b>2015</b>
Reclassification of the current portion of long-term trade receivables	₩ 1,221	₩ 1,730
Change in advance payments related to the acquisition of property, plant and equipment	(1,422)	(5,297)
Change in non-trade payables related to the acquisition of property, plant and equipment	(30,363)	(2,302)
Change in other receivables related to the disposal of property, plant and equipment	(111)	205
Change in other receivables related to the disposal of intangible asset	(1,258)	3,991
Offset available-for-sale financial assets against long-term borrowings	-	3,366
Transferred to property, plant and equipment from non-current assets held-for-sale	-	26
Transferred to property, plant and equipment from machinery-in-transit	78,198	13,774
Transferred to property, plant and equipment from construction-in-progress	253,486	546,410
Reclassification between property, plant and equipment and intangible asset	448	1,085
Reclassification between property, plant and equipment and investment property	-	9
Reclassification of inventories (sites) into investment property	15,698	-
Reclassification of trade receivables into available-for-sale financial assets	206	881
Conversion of loans into investment in subsidiary by debt-for-equity swap	26,910	-
Reclassification of the current portion of Long-term loans	10,884	-
Reclassification of the current portion of Long-term financial instruments	2,304	-
Reclassification of the current portion of long-term deposits received	14,480	5,153
Reclassification of the current portion of debentures	140,000	260,000
Reclassification of the current portion of long-term borrowings	612,727	355,466
Reclassification of the current portion of long-term other payable	3,634	9,546
Offset provisions for guarantee against allowance for receivables	-	28,000

**40. Contingencies and Commitments**

*(a) Notes and others provided as collaterals*

Details of notes and others provided as collaterals in relation to borrowings and commitments as at December 31, 2016, are as follows:

	<b>Beneficiary</b>	<b>Number</b>	<b>Contents</b>
Notes	SK Gas Ltd.	1	Blank
	TCC Steel Co., Ltd.	1	Blank
	OKSAN OCHANG Highway Corporation	4	To settle the obligation as investor
Check	Korea Resources Corporation	1	Blank

# Hyosung Corporation

## Notes to the Separate Financial Statements

### December 31, 2016 and 2015

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#### *(b) Commitment contracted with financial institutions*

The Company entered into agreements such as bank overdrafts, trade bill discounts, open local L/C, general loans and others with financial institutions with a limit of ₩ 2,785,148 million. Also, the Company entered into trade receivables discount agreements with a limit of ₩ 1,609,826 million as at December 31, 2016.

#### *(c) Guarantees provided for others*

The Company has provided payment guarantees for financial institutions in relation to the purchasing house funds and other guarantees amounting to ₩ 288,261 million (2015: ₩ 177,773 million) as at December 31, 2016. Also, the limits of the related guarantees are ₩514,512 million (2015: ₩ 582,982 million) as at December 31, 2016. Further, as at December 2016, the Company provides joint guarantees of performing construction contracts amounting ₩ 3,195,726 million (2015: ₩ 2,514,021 million) in relation to the guarantees of housing distribution which developers obtained from Korea Housing & Urban Guarantee Co., Ltd.

The Company has provided a cash deficiency support agreement amounting to ₩ 308,400 million (2015: ₩ 304,750 million) to Grand Seventh Ltd. in relation to the solar power plant project in Romania as at December 31, 2016. Also the Company has provided guarantees for related parties amounting to ₩ 1,845,084 million (2015: ₩ 3,110,895 million) (Note 21).

Meanwhile, the Company entered into the agreements with DH Holdings Co., Ltd. and DH Holdings the 2<sup>nd</sup> Co., Ltd in relation to the borrowings of Doomi Construction Co., Ltd., one of the subsidiaries. The Company has an obligation to purchase the golf membership right amounting to sum of principal and interest expenses in case of shortfalls to cover principal and interest expenses at maturity date. As at December 31, 2016, the total amount in relation to the agreement is ₩ 28,600 million and carrying amount of borrowings is ₩ 5,000 million.

The Company entered into the agreements with Hanwha Life Insurance Co., Ltd. and seven other financial institutions in relation to the borrowings of Hana Land Chip Private Real Estate Investment Trust No.39, one of the subsidiaries, amount to ₩ 150,000 million. The Company has an obligation to purchase the specific real estate located in Gangnam-gu, Seoul at fair value in case of shortfalls to cover principal and interest expenses at maturity date.

**Hyosung Corporation**  
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*(d) Guarantees provided in relation to project financing*

Details of guarantees provided for the borrowings of developers as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	<b>2016</b>		<b>2015</b>	
Liabilities take-over/fund supplemental commitments	₩	292,000	₩	310,000
Conditional liabilities take-over		569,000		113,000
	₩	<u>861,000</u>	₩	<u>423,000</u>

Details of guarantees provided by the Company in relation to project financing as at December 31, 2016, are as follows:

*(in millions of Korean won)*

<b>Construction</b>	<b>Creditor</b>	<b>Guarantee limit</b>	<b>Carrying amount of borrowings</b>	<b>Details of guarantees</b>	<b>Guarantee period</b>
Gwangju Taejeondong APT	Security Corp.	₩ 132,000	₩ 132,000	Liabilities take-over commitments	2016.04~2017.04
Gongdeok complex facility <sup>1</sup>	Bank	160,000	129,500	Fund supplemental commitments	2014.08~2019.08
		<u>₩ 292,000</u>	<u>₩ 261,500</u>		

<sup>1</sup> The Company has an obligation to complete the construction and provides a cash deficiency support agreement for Gongdeok Gyeongwoo Development Corporation, one of the subsidiaries (Note 21).

The Company provides conditional liabilities take-over agreements amounting to ₩ 403,770 million in for Urban Redevelopment Projects on the 4th Yongsan Region, Seoul and other 4 construction projects with a limit of ₩ 569,000 million.

*(e) Guarantees provided by others*

Details of guarantees provided by others as at December 31, 2016, are as follows:

*(in millions of Korean won)*

<b>Guarantor</b>	<b>Guaranteed amount</b>	<b>Details of guarantees</b>
Construction Guarantee Cooperative and others	₩ 733,164	Payment guarantee related to construction
The Export-Import Bank of Korea and others	686,638	Performance guarantees and others
	<u>₩ 1,419,802</u>	

**Hyosung Corporation**  
**Notes to the Separate Financial Statements**  
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*(f) Assets pledged as collaterals*

Details of assets pledged as collaterals for the Company's debt and others as at December 31, 2016, are as follows:

*(in millions of Korean won)*

Secured assets	Secured amount	Amount of agreement (Including borrowings)	Provided by
Property, plant and equipment	₩ 287,872	₩ 109,934	Woori Bank
Available-for-sale financial assets <sup>1</sup>	155,320	-	Committee of Creditor Banks of Chin Hung International Inc.
Available-for-sale financial assets	3,300	-	Machinery financial cooperative
Available-for-sale financial assets	3,319	-	Construction Guarantee cooperative
Property, plant and equipment	1,489,001	740,528	Korea Development Bank and others
Property, plant and equipment <sup>2</sup>	10,000	-	JeonJu City
Trade receivables	174,312	174,312	Woori Bank and others
	₩ 2,123,124	₩ 1,024,774	

<sup>1</sup>The equity shares of Chin Hung International Inc. amounting to ₩ 155,320 million have been provided as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. (Note 12 and 21).

<sup>2</sup>Certain amounts of the property, plant and equipment are provided as collaterals to JeonJu city for receiving government grants.

As at December 31, 2016, the Company has pledged its shares of Somesevit Corporation (investment in subsidiaries with no book value) as collateral for borrowings of Somesevit Corporation amount to ₩ 56,000 million. And the Company has pledged its shares of Gongdeok Gyeongwoo Development Corporation (investment in subsidiaries with the book amount of ₩ 974 million) as collateral for borrowings of Gongdeok Gyeongwoo Development Corporation amount to ₩ 129,500 million. Also, the Company has pledged its shares of Pyeongchang Wind Power Co., Ltd. (investment in associates with the book amount of ₩ 6,510 million) as collateral for borrowings of Pyeongchang Wind Power Co., Ltd. amount to ₩ 61,500 million. In addition, certain amounts of the property, plant and equipment are provided as collaterals to TOYOTA Motor KOREA Co., Ltd. in relation to the inventory financing of Hyosung Toyota Corp. (Note 20 and 21).

**Hyosung Corporation**  
**Notes to the Separate Financial Statements**  
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*(g) Pending lawsuits*

Details of pending lawsuits as at December 31, 2016, are as follows:

*(in millions of Korean won)*

<b>Plaintiff</b>	<b>Defendant</b>	<b>Details of lawsuit</b>	<b>Aggregate amount</b>
<b>Lawsuits in which the Company is the plaintiff</b>			
Hyosung Corporation	Tae sung tech co., ltd and others	Claims for construction costs	₩ 209
<b>Lawsuits in which the Company is the defendant</b>			
UOP LLC and others	Hyosung Corporation	Claims for damages	₩ 61,244

The final outcome of the above cases cannot yet be estimated as at the reporting date. Accordingly, no provision for potential losses arising from the claims against the Company is reflected in the accompanying financial statements.

**Report on Independent Accountants'  
Review of Internal Accounting Control System**

To the President of  
Hyosung Corporation

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Hyosung Corporation (the "Company") as at December 31, 2016. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as at December 31, 2016, the Company's IACS has been effectively designed and is operating as at December 31, 2016, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association."

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a Company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A Company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean IFRS. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. 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 causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as at December 31, 2016, and we did not review management's assessment of its IACS subsequent to December 31, 2016. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 9, 2017

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

To the Board of Directors and Audit committee of  
Hyosung Corporation

I, as the Internal Accounting Control Officer (“IACO”) of Hyosung Corporation (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2016.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, 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 reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as at December 31, 2016, in all material respects, in accordance with the IACS standards.

January 26, 2017

Sang-Woon Lee, Chief Executive Officer

Gwang-oh Kim, Internal Accounting Control Officer