HYUNDAI CORPORATION
and Subsidiaries
Consolidated Financial Statements
December 31, 2016 and 2015

HYUNDAI CORPORATION and Subsidiaries
Index
December 31, 2016 and 2015

Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
HYUNDAI CORPORATION

We have audited the accompanying consolidated financial statements of HYUNDAI CORPORATION and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Hyundai Corporation and its subsidiaries as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Korean IFRS.

Other Matters

The accompanying consolidated financial statements as of and for the years ended December 31, 2016 and 2015, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 40 to the consolidated financial statements.

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.

Samil PricewaterhouseCoopers

Seoul, Korea
March 16, 2017

This report is effective as of March 16, 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 consolidated 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.

HYUNDAI CORPORATION and Subsidiaries

Consolidated Statements of Financial Position

December 31, 2016 and 2015

(in thousands of Korean won and thousands of US dollars)	Notes		2016		2015		2016 (in US dollars) (Note 40)
Assets							
Current assets							
Cash and cash equivalents	4,7,8,11	₩	193,585,624	₩	69,742,974	$	160,187
Short-term financial instruments	4,7,8		10,084,945		-		8,345
Trade accounts receivable	4,7,8,9,12,36		563,603,275		516,946,067		466,366
Inventories	13		286,993,968		341,181,676		237,479
Derivative financial assets	4,5,7,8,35		2,194,106		1,726,508		1,816
Current portion of long-term loans	4,7,8,17,36		-		10,802,686		-
Current tax asset			-		143,597		-
Other accounts receivable	4,7,8,14,36		24,119,413		73,048,058		19,958
Other current assets	14,36		39,411,944		44,459,394		32,612
			1,119,993,275		1,058,050,960		926,763
Assets held for sale			9,668,000		-		8,000
Non-current assets							
Long-term financial instruments	4,7,8,10		19,000		21,000		16
Available-for-sale financial assets	5,7,15,17		90,516,739		88,370,932		74,900
Investments in associates	16,17		214,555,848		279,833,554		177,539
Long-term loans receivable	4,7,8,17,36		33,034,821		32,320,035		27,335
Investments in development projects	4,7,8,17,36		8,732,037		4,786,493		7,226
Property and equipment	18		4,460,588		5,256,062		3,691
Intangible assets	17,19		29,330,488		31,183,295		24,270
Deferred income tax assets	24		536,550		630,718		444
Other non-current assets	4,7,8,14,36		3,336,972		3,533,437		2,761
			384,523,043		445,935,526		318,182
Total assets		₩	1,514,184,318	₩	1,503,986,486	$	1,252,945
Liabilities							
Current liabilities							
Trade accounts and notes payable	4,7,36	₩	446,180,001	₩	464,791,893	$	369,201
Other payables	4,7,36		71,310,193		92,522,437		59,007
Advances from customers	36		49,540,978		47,994,609		40,994
Short-term borrowings	4,7,9,21,34		422,850,213		288,191,909		349,897
Current portion of long-term borrowings	4,7,21		3,273,736		7,486,992		2,709
Current portion of provisions	23		17,506		718,113		14
Current tax liabilities			8,228,077		3,546,389		6,809
Derivative financial liabilities	4,5,7,35		3,062,706		1,169,118		2,534
Other current liabilities	4,7,20,36		5,012,918		7,598,670		4,148
			1,009,476,328		914,020,130		835,313
Non-current liabilities							
Long-term borrowings	4,7,21		4,786,493		7,961,353		3,961
Net defined benefit liability	22		1,804,821		1,486,068		1,493
Provisions	23		6,020,436		5,288,350		4,982
Deferred income tax liabilities	24		58,902,293		83,723,368		48,740
Other non-current liabilities			244,101		295,708		202
Non-current tax liability			-		1,235,962		-
			71,758,144		99,990,809		59,378
Total liabilities			1,081,234,472		1,014,010,939		894,691
Equity							
Equity attributable to owners of the Parent							
Paid-in capital							
Capital stock	1		66,144,830		66,144,830		54,733
Other components of equity	25		(268,225,871)		(261,068,002)		(221,949)
Accumulated other comprehensive income	5,25		207,944,391		255,045,399		172,068
Retained earnings	26		426,160,744		429,046,759		352,636
Non-controlling interest			925,752		806,561		766
Total equity			432,949,846		489,975,547		358,254
Total liabilities and equity		₩	1,514,184,318	₩	1,503,986,486	$	1,252,945

The accompanying notes are an integral part of these consolidated financial statements.
The US dollar figures are provided for information purposes only and do not form part of the consolidated financial statements. Refer to Note 40.

HYUNDAI CORPORATION and Subsidiaries

Consolidated Statements of Income

Years Ended December 31, 2016 and 2015

(in thousands of Korean won and thousands of US dollars, except per share amounts)	Notes		2016		2015		2016 (in US dollars) (Note 40)
Net sales	6,18,27,36	₩	3,558,767,403	₩	4,261,900,488	$	2,944,781
Cost of sales	13,27,29,36		(3,452,133,242)		(4,156,305,881)		(2,856,544)
Gross profit			106,634,161		105,594,607		88,237
Selling and administrative expenses	28,29		(76,151,695)		(82,148,172)		(63,013)
Operating income	6		30,482,466		23,446,435		25,224
Other non-operating income	18,30		141,341,829		100,935,418		116,956
Other non-operating expenses	30		(146,756,741)		(108,681,681)		(121,437)
Gain on investments in associates	16		6,534,670		20,478,966		5,407
Finance income	31		41,048,018		32,279,985		33,966
Finance expenses	31		(51,299,012)		(30,085,549)		(42,448)
Income before income tax			21,351,230		38,373,574		17,668
Income tax expense	24		(13,284,141)		(11,015,557)		(10,992)
Profit from continuing operations			8,067,089		27,358,018		6,675
Profit from discontinuing operations	37		-		119,872,085		-
Income for the year		₩	8,067,089	₩	147,230,103	$	6,675
Profit attributable to:							
Owners of the parent			7,958,543		147,159,973		6,585
Non-controlling interests			108,546		70,130		90
Earnings per share during the year (in won and US dollars)							
Income per share from continuing operations	32	₩	604	₩	1,362	$	0.50
Income per share from discontinuing operations	32	₩	-	₩	5,983	$	-
Basic earnings per share	32	₩	604	₩	7,345	$	0.50

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HYUNDAI CORPORATION and Subsidiaries

Consolidated Statements of Comprehensive Income

Years ended December 31, 2016 and 2015

(in thousands of Korean won and thousands of US dollars)		2016		2015		2016 (in US dollars) (Note 40)
Income for the year	₩	8,067,089	₩	147,230,103	$	6,675
Other comprehensive income						
Items not to be subsequently reclassifiable to profit or loss :						
Remeasurements of net defined benefit liabilities		(926,307)		(549,033)		(766)
Items to be subsequently reclassifiable to profit or loss :						
Gain(loss) on valuation of available-for-sale financial assets		(3,533,807)		15,375,604		(2,924)
Changes in equity method investees with accumulated comprehensive expense		(45,077,158)		(41,063,829)		(37,300)
Loss on valuation of derivative		(313,861)		-		(260)
Changes in foreign operation currency translation differences		1,834,462		826,694		1,518
Other comprehensive loss for the year, net of tax		(48,016,671)		(25,410,564)		(39,732)
Total comprehensive income(loss) for the year	₩	(39,949,582)	₩	121,819,539	$	(33,057)
Comprehensive income(loss) attributable to:						
Owners of the parent		(40,068,773)		121,737,308		(33,156)
Non-controlling interests		119,191		82,230		99

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HYUNDAI CORPORATION and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2016 and 2015

(in thousands of Korean won and thousands of US dollars)	Attributable to equity holders of the Company: Capital Stock	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling Interest	Total Equity	U.S. Dollars (Note 40)
Balance at January 1, 2015	₩ 111,649,010	₩ (18,865,482)	₩ 279,919,031	₩ 293,600,720	₩ 666,303,279	₩ 718,548	₩ 667,021,827	$ 551,942
Comprehensive income								
Income for the year	-	-	-	147,159,973	147,159,973	70,130	147,230,103	121,829
Gain on valuation of available-for-sale financial assets	-	-	15,375,604	-	15,375,604	-	15,375,604	12,723
Changes in equity of equity method investees	-	-	(41,012,245)	-	(41,012,245)	-	(41,012,245)	(33,936)
Negative changes in equity of equity method investees	-	-	(51,584)	-	(51,584)	-	(51,584)	(43)
Remeasurements of net defined liabilities	-	-	-	(549,033)	(549,033)	-	(549,033)	(454)
Changes in foreign operation currency translation differences	-	-	814,593	-	814,593	12,100	826,693	684
Transaction with equity holders								
Dividends	-	-	-	(11,164,901)	(11,164,901)	-	(11,164,901)	(9,239)
Treasury stock	-	(151,700)	-	-	(151,700)	-	(151,700)	(126)
Changes due to spin-off	(45,504,180)	(242,050,820)	-	-	(287,555,000)	-	(287,555,000)	(237,944)
Loss in capital transactions with non-controlling interests	-	-	-	-	-	5,783	5,783	5
Balance at December 31, 2015	₩ 66,144,830	₩ (261,068,002)	₩ 255,045,399	₩ 429,046,759	₩ 489,168,986	₩ 806,561	₩ 489,975,547	$ 405,441
Balance at January 1, 2016	₩ 66,144,830	₩ (261,068,002)	₩ 255,045,399	₩ 429,046,759	₩ 489,168,986	₩ 806,561	₩ 489,975,547	$ 405,441
Comprehensive income								
Income for the year	-	-	-	7,958,543	7,958,543	108,546	8,067,089	6,675
Loss on valuation of available-for-sale financial assets	-	-	(3,533,807)	-	(3,533,807)	-	(3,533,807)	(2,924)
Changes in equity of equity method investees	-	-	76,715	-	76,715	-	76,715	63
Negative changes in equity of equity method investees	-	-	(45,153,873)	-	(45,153,873)	-	(45,153,873)	(37,364)
Remeasurements of net defined liabilities	-	-	-	(926,307)	(926,307)	-	(926,307)	(766)
Loss on valuation of derivative	-	-	(313,861)	-	(313,861)	-	(313,861)	(260)
Changes in foreign operation currency translation differences	-	-	1,823,817	-	1,823,817	10,645	1,834,462	1,518
Transaction with equity holders								
Dividends	-	-	-	(9,918,250)	(9,918,250)	-	(9,918,250)	(8,207)
Treasury stock	-	(7,157,869)	-	-	(7,157,869)	-	(7,157,869)	(5,923)
Balance at December 31, 2016	₩ 66,144,830	₩ (268,225,871)	₩ 207,944,390	₩ 426,160,745	₩ 432,024,094	₩ 925,752	₩ 432,949,846	$ 358,253

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HYUNDAI CORPORATION and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2016 and 2015

(in thousands of Korean won and thousands of US dollars)	Notes	2016	2015	2016 (in US dollars) (Note 40)
Cash flows from operating activities				
Cash generated from operations	33	₩ 62,487,884	₩ 56,376,875	$ 51,707
Interest received		1,886,601	5,844,344	1,561
Interest paid		(7,084,504)	(5,000,579)	(5,862)
Dividends		9,232,375	31,065,817	7,640
Income tax paid		(19,517,270)	(13,472,396)	(16,150)
Net cash inflow from operating activities		47,005,086	74,814,061	38,896
Cash flows from investing activities				
Proceeds from disposal of short-term financial instruments, net		(10,060,501)	13,100,000	(8,325)
Disposal of investments from related companies		505,195	4,750,000	418
Decrease of long-term financial instrument		2,000	6,581	2
Disposal of available-for-sale financial assets		-	334,133	-
Collection of long-term loans receivable		2,825,847	7,548,415	2,338
Disposal of property and equipment		52,277	142,591	43
Disposal of intangible assets		48,908	1,402,934	40
Increase of leasehold deposits received		8,871	295,709	7
Cash outflows for business combination		-	(216,571)	-
Acquisition of available-for-sale financial assets		(6,579,315)	-	(5,444)
Acquisition of investments from related companies		(3,400,000)	-	(2,813)
Gain of convertible bonds		-	(3,600,000)	-
Acquisition of investments in development projects		(3,807,235)	-	(3,150)
Long-term loans receivable provided		(3,443,080)	(31,461,469)	(2,849)
Acquisition of property and equipment		(342,038)	(1,538,300)	(283)
Acquisition of intangible assets		(5,546,954)	(7,744,906)	(4,590)
Net cash outflow from investing activities		(29,736,025)	(16,980,883)	(24,606)
Cash flows from financing activities				
Increase(decrease) in short-term borrowings, net		127,952,794	(149,840,498)	105,877
Payment of current portion of borrowings		(7,486,992)	(7,430,238)	(6,195)
Dividends paid		(9,918,250)	(11,164,901)	(8,207)
Acquisition of non-controlling interest		-	5,783	-
Acquisition of treasury shares		(6,939,499)	(151,700)	(5,742)
Changes in spin-off		-	(125,000,000)	-
Net cash inflow(outflow) from financing activities		103,608,053	(293,581,554)	85,733
Net increase(decrease) in cash and cash equivalents		120,877,114	(235,748,376)	100,022
Exchange rate effect of cash and cash equivalents		2,965,536	(70,344)	2,454
Cash and cash equivalents at the beginning of year		69,742,974	305,561,694	57,710
Cash and cash equivalents at the end of year		₩ 193,585,624	₩ 69,742,974	$ 160,186

The accompanying notes are an integral part of these consolidated financial statements.
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1. Organization

The consolidated financial statements, which include those of the Parent Company, HYUNDAI CORPORATION (the "Company"), and its 13 consolidated subsidiaries, including Hyundai Corp. USA (collectively referred to as the "Group"), and five associates, including PTHD INTI. DEVE., which are accounted for using the equity method.

1.1 Company

The Company was established on December 8, 1976, under the Commercial Code of the Republic of Korea to engage mainly in export and import goods. On December 1, 1977, the Company's shares of stock were listed in the Korean Stock Exchange. The Company has been designated as a general trading company by the government of the Republic of Korea since February 11, 1978. As of December 31, 2016, the Company has 26 overseas branches. The Company mainly exports vehicles, steel products, machinery, electronic goods, and exports vessels and plants on a deferred payment basis. During the past several years, the Company has been actively engaged in the overseas exploration of petroleum and minerals.

The Company is authorized to issue 80 million shares with a par value of ₩5,000 per share and its initial paid in capital amounted to ₩50 million. As of December 31, 2016, it has 13,228,966 common shares issued and outstanding, and its capital stock amounts to ₩66,145 million after several capital increases, conversions of bonds and capital reduction.

As of December 31, 2016, the Company's major shareholders are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
HYUNDAI C&F INC.	2,562,000	19.37
KCC Corporation	1,587,475	12.00
Chung Mong-hyuk	1,097,601	8.30
National Pension Service	590,943	4.47
Hyundai Development Co. - Engineering & Construction	264,579	2.00
Chung Mong-seok	264,579	2.00
Halla Holdings Corporation	264,579	2.00
Hyundai Home Shopping Network Corporation	132,289	1.00
Hyundai Department Store Co.,Ltd	132,289	1.00
Others	5,996,949	45.32
	12,893,283	97.46
Treasury stock	335,683	2.54
	13,228,966	100.00

1.2 Consolidated Subsidiaries

Details of the consolidated subsidiaries as of December 31, 2016 and 2015, are as follows:

Name	Country	Percentage of ownership (%) 2016	2015	Closing month	Main business
HYUNDAI CORP. USA	U.S.A	100	100	December	Trading
HYUNDAI AUSTRALIA PTY., LTD.	Australia	100	100	December	Trading and Mining
HYUNDAI JAPAN CO., LTD.	Japan	100	100	December	Trading
HYUNDAI CANADA INC.	Canada	100	100	December	Trading
HYUNDAI CORP. EUROPE GMBH	Germany	100	100	December	Trading
HYUNDAI SANGSA H.K, LTD.	Hong Kong	-	100	December	Trading
HYUNDAI CORPORATION SINGAPORE PTE. LTD.	Singapore	100	100	December	Trading
HYUNDAI CORPORATION (SHANGHAI) CO., LTD.	China	100	100	December	Trading
POS-HYUNDAI STEEL MFG. (I) PVT. LTD.	India	94	94	March	Manufacture of steel
Hyundai Energy&Resources Co., Ltd.	South Korea	-	100	December	Energy and Resources
HYUNDAI ONE ASIA PTE. LTD.[1]	Singapore	100	100	December	Trading
HYUNDAI CORPORATION (CAMBODIA) CO., LTD.[1]	Cambodia	100	100	December	Trading
HYUNDAI CORPORATION PHNOM PENH INVESTMENT CO., LTD.[1,3]	Cambodia	49	49	December	Trading and Farming
HYUNDAI PLATFORM CORP[2]	U.S.A	100	100	December	Transport and Installation
HYUNDAI ONE EUROPE B.V.	Holland	-	100	December	Trading
HYUNDAI ONE EUROPE GmbH[1]	Germany	100	-	December	Trading

[1] Subsidiary of HYUNDAI CORPORATION SINGAPORE PTE. LTD.
[2] Subsidiary of HYUNDAI CORP. USA.
[3] Although the Group owns less than 50% of the voting rights of HYUNDAI CORPORATION PHNOM PENH INVESTMENT CO., LTD., the Group is considered to have control over HYUNDAI CORPORATION PHNOM PENH INVESTMENT CO., LTD., as the Group has a right to appoint or dismiss the majority of its board of directors by virtue of an agreement with the other investors.

Although the Group owns more than 50% of the voting rights of PTHD INTI. DEVE. and HYUNDAI YEMEN LNG COMPANY LIMITED, they are excluded from the consolidated subsidiaries as the Group is unable to excise its voting rights by virtue of an agreement with other investors.

1.3 Summarized Financial Information

Summarized financial information for consolidated subsidiaries as of and for the years ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)

	2016					
	Assets	Liablities	Equity	Sales	Profit(loss) for the year	Total comprehensive income(loss)
HYUNDAI CORP. USA	208,507	172,142	36,365	531,834	4,768	5,914
HYUNDAI AUSTRALIA PTY., LTD.	6,026	7,499	(1,473)	6,416	(2,025)	(2,033)
HYUNDAI JAPAN CO., LTD.	27,367	16,361	11,006	112,828	1,979	2,489
HYUNDAI CANADA INC.	26,108	17,523	8,585	46,621	1,047	1,490
HYUNDAI CORP. EUROPE GMBH	38,557	31,002	7,555	70,415	(322)	(398)
HYUNDAI CORPORATION SINGAPORE PTE. LTD.	160,175	147,428	12,747	540,152	1,178	1,571
HYUNDAI CORPORATION (SHANGHAI) CO., LTD.	3,749	8	3,741	1,361	(404)	(526)
POS-HYUNDAI STEEL MFG. (I) PVT. LTD.	19,723	4,314	15,409	28,057	1,855	2,032
HYUNDAI ONE ASIA PTE. LTD.	3,252	2,917	335	6,046	153	165
HYUNDAI CORPORATION (CAMBODIA) CO., LTD.	504	396	108	218	(208)	(226)
HYUNDAI CORPORATION PHNOM PENH INVESTMENT CO., LTD.	249	247	2	-	(5)	(5)
HYUNDAI PLATFORM CORP	4,405	2,919	1,486	20,701	673	725
HYUNDAI ONE EUROPE GmbH	725	670	55	2	(586)	(591)

(in millions of Korean won)	2015					
	Assets	**Liablities**	**Equity**	**Sales**	**Profit(loss) for the year**	**Total comprehensive income(loss)**
HYUNDAI CORP. USA	225,410	194,958	30,452	575,769	4,429	6,194
HYUNDAI AUSTRALIA PTY., LTD.	3,974	3,414	560	12,050	(2,034)	(2,182)
HYUNDAI JAPAN CO., LTD.	23,381	14,863	8,518	144,112	999	1,438
HYUNDAI CANADA INC.	24,068	16,973	7,095	51,457	1,359	596
HYUNDAI CORP. EUROPE GMBH	40,361	32,408	7,953	72,763	(62)	(413)
HYUNDAI SANGSA H.K, LTD.	519	-	519	-	204	231
HYUNDAI CORPORATION SINGAPORE PTE. LTD.	54,750	43,260	11,490	393,006	365	1,068
HYUNDAI CORPORATION (SHANGHAI) CO., LTD.	4,272	5	4,267	5,877	(16)	24
POS-HYUNDAI STEEL MFG. (I) PVT. LTD.	19,259	5,882	13,377	28,837	1,202	1,401
Hyundai Energy&Resources Co., Ltd.	1,297	40	1,257	689	(7)	(7)
HYUNDAI ONE ASIA PTE. LTD.	1,902	1,732	170	1,387	(156)	(141)
HYUNDAI CORPORATION (CAMBODIA) CO., LTD.	579	616	(37)	44	(149)	(145)
HYUNDAI CORPORATION PHNOM PENH INVESTMENT CO., LTD.	242	234	8	-	(4)	(4)
HYUNDAI PLATFORM CORP	770	9	761	-	(58)	(30)
HYUNDAI ONE EUROPE B.V.	-	-	-	-	-	-

1.4 Changes in Scope for Consolidation

Subsidiaries newly included in or excluded from the consolidation for the year ended December 31, 2016:

Subsidiary	**Reason**
Hyundai Energy&Resources Co., Ltd.	Merged with the parent company
HYUNDAI SANGSA H.K, LTD.	Liquidation
HYUNDAI ONE EUROPE B.V.	Liquidation
HYUNDAI ONE EUROPE GmbH	Newly established

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated 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 Group 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 consolidated 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 Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group 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 the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

The Group 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*
- *Agriculture: Bearer Plants* – Amendments to Korean IFRS 1016 *Property, Plant and Equipment,* and Korean IFRS 1041 *Agriculture*
- *Clarification of Acceptable methods of Depreciation and Amortization* – Amendments to Korean IFRS 1016 *Property, Plant and Equipment*, and Korean IFRS 1038 *Intangible assets*
- *Investment entities: Applying the Consolidation Exception* – Amendments to Korean IFRS 1110 *Consolidated Financial Statements,* Korean IFRS 1028 *Investments in Associates and Joint Ventures,* and Korean IFRS 1112 *Disclosures of Interests in Other Entities*
- *Accounting for Acquisitions of Interests in Joint Operations* – Amendments to Korean IFRS 1111 *Joint Arrangement*
- Annual Improvements to Korean IFRS 2012-2014 *Cycle*
- Korean IFRS 1011 *Construction Contract*, Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 2115 *Arrangements for Property Construction*

(b) New standards and interpretations not yet adopted by the Group

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 Group 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 Group 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 Group 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 Group does not expect the amendments to have a significant impact on the consolidated financial statements.

- 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 Group 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 Group’s financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Group and macroeconomic variables.

With the implementation of Korean IFRS 1109, the Group neither prepared for internal management process nor began to adjust accounting system for financial instruments reporting. Also, the Group did not analyze the financial effects of applying the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Group 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 Group 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 of 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 of December 31, 2016, the Group neither prepared for internal management process nor began to adjust accounting system in relation to implementation of Korean IFRS 1115. Also, the Group did not analyze the financial effects of applying the standard. The Group plans to analyze the financial effects of applying the standard and disclose the result of the analysis in the notes on the financial statement as of 2017. The Group identified the following areas are likely to be affected in general.

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110, *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls the corresponding investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidation of a subsidiary begins from the date the Company obtains control of a subsidiary and ceases when the Company loses control of the subsidiary.

The Group applies the acquisition method to account for business combinations. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis in the event of liquidation, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. All other non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs. Acquisition-related costs are expensed as incurred. Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

Balances of receivables and payables, income and expenses and unrealized gains on transactions between the Group subsidiaries are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is any objective evidence that the investment in the associate is impaired, the Group recognizes the difference between the recoverable amount of the associate and its book value as impairment loss.

(c) Joint Arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the each entity operates (the functional currency). The consolidated financial statements are presented in Korean won, which is the Controlling Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

(c) Translation into the presentation currency

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each statement of income are translated at average exchange rates; and
- equity is translated at the historical exchange rate; and
- all resulting exchange differences are recognized in other comprehensive income.

2.5 Financial Assets

(a) Classification and measurement

The Group 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 purchases and sales of financial assets are recognized on trade date.

At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of income. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

(b) Impairment

The Group 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. Impairment of other financial assets is directly deducted from their carrying amount. The Group writes off financial assets when the assets are determined to be no longer recoverable.

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a prolonged delinquency in interest or principal payments. A significant and prolonged decline in the fair value of an available-for-sale equity instrument from its cost is also objective evidence of impairment.

(c) Derecognition

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'borrowings' in the consolidated statement of financial position (Note 9).

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 Group 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 re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the consolidated statement of income within 'other non-operating income (expenses)' according to the nature of transactions.

The Group only applies fair value hedge accounting for hedging price risk on metal commodity (aluminum). The effective portion of changes in fair value of derivatives that are designated and qualify as fair value hedges is recognized in 'net sales' and the ineffective portion is recognized in 'other non-operating income (expenses)'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the specific identification method.

2.8 Property and Equipment

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

Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

	Estimated useful lives
Buildings	30 years
Vehicles	4 years
Machinery and equipment	4 years
Leasehold improvements	4 years

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at each financial year-end and, if appropriate, accounted for as changes in accounting estimates.

2.9 Government Grants

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

2.10 Intangible Assets

(a) Foreign mining development expenses

The foreign mining development expenses are amortized using the unit of production method in relation to Vietnam 11-2 sector and Drayton coal mine.

(b) Others

Others included software and membership rights. Software is amortized using the straight-line method over their useful lives of five years. Membership rights and trademark rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the asset is expected to be utilized.

2.11 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed 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 to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Financial Liabilities

(a) Classification and measurement

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

The Group 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 ‘trade payables’, ‘trade payables ‘, ‘other payables’, ’other current liabilities’ and ‘long and short-term borrowings’ in the consolidated statement of financial position.

(b) Derecognition

Financial liabilities are removed from the consolidated 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.

2.13 Financial Guarantee Contracts

Financial guarantees contracts provided by the Group are initially measured at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the amounts below

- the amount determined in accordance with Korean IFRS 1037*, Provisions, Contingent Liabilities and Contingent Assets*; or
- the initial amount, less accumulated amortization recognized in accordance with Korean IFRS1018, *Revenue*.

2.14 Provisions

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

2.15 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 consolidated 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 calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

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

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise 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 to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint ventures, except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, deferred tax asset is recognized for 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 against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Post-employment benefits

(a) Defined benefit liabilities

The Group has defined benefit plans. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the consolidated 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 and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or losses on settlement are recognized as profit or loss for the year.

(b) Other long-term employee benefits

The Group provides long-term employee benefits, which are entitled to employees with service period for ten years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year.

2.17 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 activities of the Group. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group 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

The Group operates trade business as a general trading company. Revenue from the sales of goods is recognized when products are delivered to the purchaser. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) Rendering of services

Rendering of services are recognized by reference to the stage of completion of a service. The stage of completion of a service is determined by the proportion that costs incurred for work performed to date bear the estimated total costs.

(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 Group 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.

(e) Dividend income

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

2.18 Segment Reporting

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

2.19 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2016 consolidated financial statements of the Group was approved by the Board of Directors on February 10, 2017, which is subject to change with the approval of the shareholders at their annual shareholders' meeting.

3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. 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 addressed below.

(a) Income taxes

The Group is operating in numerous countries and the income generated from these operations is 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 24).

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Group 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 system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to 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 Group 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) 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 22).

(d) Provisions

The Group recognizes provisions for returned goods, financial guarantees and restoration related to overseas explorations as of the reporting date. The amounts are estimated based on historical data (Note 23).

4. Financial Risk Management

4.1 Financial Risk Factors

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

The Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

(a) Market risk

i) Foreign exchange risk

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

The Group operates hedging policies (reduction of exporsure through matching) for each Group within the Group, considering the nature of business and the existence of instruments to cope with the risks of exchange rate fluctuation. Additionally, the Group periodically evaluates and handles such risks exposed through managing system for receivables and payables denominated in foreign currencies, and reports the results to the management.

As of December 31, 2016, if the foreign exchange rate of the Korean won fluctuated by 10% while other variables were fixed, the effects on net income before tax would be as follows:

(in millions of Korean won)	**2016**		**2015**	
	10% increase	**10% decrease**	**10% increase**	**10% decrease**
Income effect before tax	452	(452)	(7,460)	7,460

The above sensitivity analysis was performed just for the assets and liabilities denominated in foreign currencies which are not the Company's functional currency.

ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position either as available-for-sale. The fair value (carrying value for unlisted stocks measured using cost method) of equity securities investment of the Group (excluding subsidiaries and associates) amounts to ₩90,517 million (2015: ₩88,371 million) (Note 15).

iii) Cash flow and 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 caused by fluctuations in interest rates and minimizing net interest expense.

The Group analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging.

Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

Based on the simulations performed, with all other variables held constant, the impact on interest income and interest expense of a 0.1% interest rate shift on borrowings issued at variable rates is as follows:

(in millions of Korean won)	**2016**		**2015**	
	0.1% increase	**0.1% decrease**	**0.1% increase**	**0.1% decrease**
Interest expenses	(43)	43	(15)	15
Interest income	183	(183)	80	(80)

(b) Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with excellent credit rating are accepted. For the general customers, the Group hedges credit risks by assessing level of credit ratings and entering into an export credit insurance contracts with Korea Trade Insurance Corporation.

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

(in millions of Korean won)	**2016**	**2015**
Cash and cash equivalents	193,477	69,644
Short-term financial instruments	10,085	-
Trade accounts receivable, net	563,603	516,946
Other accounts receivable, net	24,119	73,048
Derivative finanacial assets	2,194	1,727
Long-term financial instruments	19	21
Long-term loans receivables	33,035	43,123
Invsetments in development projects	8,732	4,786
Other non-current assets	3,319	3,310
Financial guarantee contracts	1,984	1,924
Performance guarantee contracts	33,841	32,773
	874,408	747,302

(c) Liquidity Risk

In order to maintain appropriate amount of liquidity, the Group manages liquidity risk by making cyclical expectations and adjustments of capital inflows and outflows. The Group management team monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group’s debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements.

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

(in millions of Korean won)	2016				
	Less than 1 year	**1~2 years**	**2~3 years**	**Over 3 years**	**Total**
Trade accounts and notes payable	446,180	-	-	-	446,180
Other payables	71,310	-	-	-	71,310
Other current liabilities	1,083	-	-	-	1,083
Derivative financial liabilities	3,063	-	-	-	3,063
Short-term borrowings	422,850	-	-	-	422,850
Long-term borrowings	3,295	-	-	4,786	8,081
Financial guarantee contracts	1,984	-	-	-	1,984
Performance guarantee contracts	33,841	-	-	-	33,841
	983,606	-	-	4,786	988,392

(in millions of Korean won)	2015				
	Less than 1 year	**1~2 years**	**2~3 years**	**Over 3 years**	**Total**
Trade accounts and notes payable	464,792	-	-	-	464,792
Other payables	92,522	-	-	-	92,522
Other current liabilities	2,597	-	-	-	2,597
Derivative financial liabilities	1,169	-	-	-	1,169
Short-term borrowings	288,192	-	-	-	288,192
Long-term borrowings	7,568	3,192	-	4,786	15,546
Financial guarantee contracts	1,924	-	-	-	1,924
Performance guarantee contracts	32,773	-	-	-	32,773
	891,537	3,192	-	4,786	899,515

The table above analyzes the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings is based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

4.2 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group uses debt-to-equity ratio for capital management. This ratio is calculated as total debts divided by total equity as shown in the consolidated statement of financial position.

Debt-to-equity ratios as of December 31, 2016 and 2015, are as follows:

(In millions of Korean won)	**2016**	**2015**
Liabilities	1,081,234	1,014,011
Equity	432,950	489,976
Debt-to-equity ratio (%)	249.7	207.0

5. Fair Value

5.1 Fair Value of Financial Instruments by Category

There are no significant differences between carrying value and fair value of financial instruments except for available-for-sale financial assets measured at cost, which do not have a quoted price in an active market and their fair value cannot be measured reliably and thus excluded from the fair value disclosures.

5.2 Financial Instruments Measured at Cost

Details of available-for-sale financial assets measured at cost as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	**2016**	**2015**
Drayton Coal Shipping Pty Limited[1]	250	244
SEGINIAGA(M) SDN. BHD.[1]	159	159
EUROTEM DEMIRYOLU ARA-LARI SAN[1]	19	19
Hyundai Miraero Co., Ltd.[2]	6,579	-

[1] Securities are measured at cost as the variability of estimated cash flows is significant and the probabilities of the various estimates cannot be reasonably assessed.
[2] During the year, the Group newly acquired the equity instrument, which is measured at cost as the difference between the fair value and the acquisition cost is not material.

5.3 Fair Value Hierarchy

Financial instruments measured at fair value or for which the fair value is disclosed are categorized within the fair value hierarchy, and the defined levels are as follows:

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

The following table presents the Group’s financial assets and financial liabilities that are measured at fair value as of December 31, 2016:

(In millions of Korean won)	**2016**			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Derivative financial assets	-	1,856	338	2,194
Available-for-sale financial assets	-	-	83,510	83,510
Derivative financial liabilities	-	3,063	-	3,063

5.4 Changes in Level 3 of the fair value hierarchy for the recurring fair value measurements

Details of changes in Level 3 of the fair value hierarchy for the recurring fair value measurements are as follows:

(in millions of Korean won)	**2016**	**2015**
Beginning balance	88,287	64,223
Acquisition	-	3,600
Amount recognized in other comprehensive income[1]	(4,439)	20,464
Ending balance	83,848	88,287
Unrealized gains	76,355	81,017

[1] This represents gain or loss on valuation of available-for-sale financial assets as changes in unrealized gains or losses related to available-for-sale equity securities as of December 31, 2016 and 2015.

5.5 Valuation Technique and the Inputs

Valuation techniques and inputs used in the fair values categorized within Level 3 of the fair value hierarchy as of December 31, 2016, are as follows:

(in millions of Korean won)	**Fair value**	**Valuation techniques**	**Inputs**	**Range of inputs**
KOREA Ras Laffan LNG Ltd.	79,845	Present value technique	Discount rate	9.00%
			Unit cost of major products($mmbtu)	8.21 ~ 13.44
			Period of cash flow projections	FY 2029
TM Shipping (Available-for-sale financial assets)	3,664	Present value technique	Discount rate	6.48%
			Period of cash flow projections	FY 2018
Embedded derivative (conversion rights)	338	Binomial model	Implied volatility	42.57%

The Group measured Korea Ras Laffan LNG Ltd., an available-for-sale financial asset related to the investments in exploration of resources, at fair value. As the 2016 Work Program and Budget, the business plan of Ras Laffan Liquefied Natural Gas Company Limited used to measure the fair value, is not an input based on observable market data, the instrument was classified as Level 3.

5.6 Valuation Processes for Fair Value Measurements Categorized Within Level 3

The Group's finance team performs the fair value measurements each period through the independent appraiser, these fair value measurements are classified as level 3.

5.7 Sensitivity analysis for Recurring Fair Value Measurements Categorized Within Level 3

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the amounts represent the most favorable or most unfavorable.

The results of the sensitivity analysis from changes in inputs for available-for-sale financial assets, which is categorized within Level 3 and subject to sensitivity analysis, are as follows:

(in millions of Korean won)	**Favorable change**	**Unfavorable change**
Change in value of available-for-sale financial assets	4,582	(4,295)

For equity securities, changes in their fair value are calculated by considering changes of discount rate (1% increase/decrease) which are significant unobservable inputs.

6. Segment Information

Management who making strategic decisions determines the group's business. Management makes decisions about allocation of resources, and reviews to assess performance of the operating segments on the basis of sales. Based on product type, they are categorized in petroleum and mineral development, vehicle, steel, chemistry, and the Group's business is segmented into industry.

For the years ended December 31, 2016 and 2015, the Group's financial information by segments is as follows:

(in millions of Korean won)	**2016**			
Segment	**Sales**	**Operating income(loss)**[1]	**Depreciation**	**Amortization**
Plant	685,202	5,928	133	182
Vehicle	984,682	18,461	267	1,574
Steel	1,570,844	9,378	515	949
Chemicals	877,422	12	226	146
Others	14,239	(3,423)	25	4,547
Adjustment of intergroup transactions	(573,622)	126	-	-
	3,558,767	30,482	1,166	7,398

(in millions of Korean won)	**2015**			
Segment	**Sales**	**Operating income(loss)**[1]	**Depreciation**	**Amortization**
Plant	831,212	4,419	163	2,813
Vehicle	679,730	6,169	177	201
Steel	1,971,413	12,356	566	921
Chemicals	1,428,512	180	339	291
Others	16,895	(477)	31	5,518
Adjustment of intergroup transactions	(665,862)	799	-	-
	4,261,900	23,446	1,276	9,744

[1]This represents amounts excluding gains on equity-method valuation and other non-operating income (dividend income) of ₩9,123 million (2015: ₩31,177 million).

Assets and liabilities of segments are not reported to the chief operating decision-maker. Accordingly, its information is not presented. Other non-operating income (expenses) and financial income (expenses), which are not included in segments' income (loss), are not presented in the above tables.

For the years ended December 31, 2016 and 2015, the Group's sales information by regions is as follows:

(in millions of Korean won)	2016	2015
America	1,325,018	1,688,672
Asia	2,177,030	2,488,229
Europe	411,607	469,223
Others	218,734	281,638
Adjustment of intergroup transactions	(573,622)	(665,862)
	3,558,767	4,261,900

7. Financial Instruments by Category

As of December 31, 2016 and 2015, financial assets by category, are as follows:

(in millions of Korean won)	2016				
	Loans receivables	**Financial assets at fair value throught profit or loss**	**Available -for-sale**	**Derivative financial instruments for hedging**	**Total**
Financial assets					
Cash and cash equivalents	193,586	-	-	-	193,586
Short-term financial instruments	10,085	-	-	-	10,085
Trade accounts receivable, net	563,603	-	-	-	563,603
Other accounts receivable, net	24,119	-	-	-	24,119
Derivative financial assets	-	1,798	-	396	2,194
Long-term financial instruments	19	-	-	-	19
Available-for-sale financial assets	-	-	90,517	-	90,517
Long-term loans receivable	33,035	-	-	-	33,035
Investments in development projects	8,732	-	-	-	8,732
Other non-current assets	3,319	-	-	-	3,319
	836,498	1,798	90,517	396	929,209

(in millions of Korean won)	2015				
	Loans receivables	**Financial assets at fair value throught profit or loss**	**Available -for-sale**	**Derivative financial instruments for hedging**	**Total**
Financial assets					
Cash and cash equivalents	69,743	-	-	-	69,743
Trade accounts receivable, net	516,946	-	-	-	516,946
Other accounts receivable, net	73,048	-	-	-	73,048
Derivative financial assets	-	1,724	-	3	1,727
Long-term financial instruments	21	-	-	-	21
Available-for-sale financial assets	-	-	88,371	-	88,371
Long-term loans receivable	43,123	-	-	-	43,123
Other non-current assets	3,310	-	-	-	3,310
Investments in development projects	4,786	-	-	-	4,786
	710,977	1,724	88,371	3	801,075

As of December 31, 2016 and 2015, financial liabilities by category, are as follows:

(in millions of Korean won)	2016			
	Carried at amortized cost	Financial liabilities at fair value throught profit	Derivative financial instruments for hedging	Total
Financial liabilities				
Trade accounts and notes payable	446,180	-	-	446,180
Other payables	71,310	-	-	71,310
Other current liabilities	1,083	-	-	1,083
Derivative financial liabilities	-	2,238	825	3,063
Short-term borrowings	422,850	-	-	422,850
Long-term borrowings	8,060	-	-	8,060
	949,483	2,238	825	952,546

(in millions of Korean won)	2015			
	Carried at amortized cost	Financial liabilities at fair value throught profit	Derivative financial instruments for hedging	Total
Financial liabilities				
Trade accounts and notes payable	464,792	-	-	464,792
Other payables	92,522	-	-	92,522
Other current liabilities	2,597	-	-	2,597
Derivative financial liabilities	-	1,166	3	1,169
Short-term borrowings	288,192	-	-	288,192
Long-term borrowings	15,448	-	-	15,448
	863,551	1,166	3	864,720

Income and loss of financial instruments by category for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016			
	Interest income	Interest expense	Others	Other comprehensive income(loss)
Loans and receivables	3,549	-	(64,529)	-
Financial assets at fair value through profit or loss	-	-	171	-
Available-for-sale financial assets	223	-	2,890	(3,534)
Financial liabilities carried at amortized cost	-	(7,223)	-	-
Other financial liabilities	-	-	-	(314)
	3,772	(7,223)	(61,468)	(3,848)

(in millions of Korean won)	2015			
	Interest income	Interest expense	Others	Other comprehensive income(loss)
Loans and receivables	6,177	-	(20,332)	-
Financial assets at fair value through profit or loss	-	-	272	-
Available-for-sale financial assets	180	-	8,439	15,376
Financial liabilities carried at amortized cost	-	(5,244)	-	-
	6,357	(5,244)	(11,621)	15,376

8. Credit Quality of Financial Assets

As of December 31, 2016 and 2015, financial assets exposed to credit risk are as follows:

(in millions of Korean won)	**2016**	**2015**
Neither past due nor impaired	766,527	540,126
Past due but not impaired	-	-
Impaired	185,853	222,683
	952,380	762,809

The Group classifies credit quality of financial assets depending on counterparty and nature. As of December 31, 2016 and 2015, details of the classified financial assets are as follows:

(in millions of Korean won)	**2016**	**2015**
Associates	23,679	39,935
Equity method investor	8,429	4,285
Financial institution	205,963	71,607
Trade accounts receivable[1]	488,072	387,440
Investments in development projects	8,732	4,786
Loans for development projects	19,272	17,576
Employees and others	199	304
Others	11,816	14,193
	766,162	540,126

[1] Some of the trade accounts receivable are covered with export insurance with Korea Trade Insurance Corporation in order to avoid credit risk.

As of December 31, 2016, the Group has recognized provision and impairment losses for financial assets amounting to ₩113,670 million (2015: ₩49,882 million)(Note 34).

9. Transfers of Financial Assets

9.1 Transferred Financial Assets that are not Derecognized in Their Entirety

The D/A export receivables that have not matured have been discounted with banks(categorized as 'borrowing' transaction). Financial assets which were transferred but not derecognized as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	**Loans and receivables (trade receivables)**	
Type	**2016**	**2015**
Book value of asset	262,751	260,106
Book value of related liabilities[1]	261,927	259,486

[1] Net amount after deducting prepaid interest amount.

9.2 Transferred Financial Assets that are Derecognized in Their Entirety

For the D/A export receivables that have not matured, the Group has export insurance (Korea Trade Insurance Corporation) at the time when the receivables were discounted with the banks. The Group derecognized the export receivables from the financial statements on transfer date by transferring substantially all the risks and rewards. As of December 31, 2016, the carrying amount of receivables which have not matured amounts to ₩28,073 million.

10. Restricted Financial Instruments

As of December 31, 2016 and 2015, restricted financial instruments are as follows:

(in millions of Korean won)	**2016**	**2015**	**Remarks**
Long-term financial instruments	19	21	Maintaining deposit for Checking accounts

11. Cash and Cash Equivalents

As of December 31, 2016 and 2015, cash and cash equivalents are as follows:

(in millions of Korean won)	**2016**	**2015**
Cash in bank and on hand	84,508	56,755
Short-term bank deposits	109,078	12,988
	193,586	69,743

12. Trade Accounts Receivable

As of December 31, 2016 and 2015, trade receivables are as follows:

(in millions of Korean won)	**2016**	**2015**
Receivables	594,961	549,069
Less: allowance for bad debts	(31,358)	(32,123)
Receivables, net	563,603	516,946

The maximum exposure of trade accounts receivables to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

As of December 31, 2016 and 2015, the aging analysis of trade accounts receivables is as follows:

(in millions of Korean won)	**2016**	**2015**
Receivables not past due	491,514	394,418
Impaired		
Up to 1 year	20,673	76,135
Over 1 year	82,774	78,516
	103,447	154,651
	594,961	549,069

For the years ended December 31, 2016 and 2015, movements in the Group provision for impairment of trade accounts receivables are as follows:

(in millions of Korean won)	**2016**	**2015**
At January 1	32,123	34,394
Provision for receivables impairment	(363)	6,007
Receivables written off during the year as uncollectible	-	(5,559)
Others	(556)	(2,850)
Effects of changes in foreign exchange rates	154	131
At December 31	31,358	32,123

The creation and release of provision for impaired receivables have been included in 'selling and administrative expenses' in the consolidated statements of income.

13. Inventories

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

(in millions of Korean won)	**2016**	**2015**
Goods and others	281,720	335,100
Finished goods	925	1,036
Raw materials	4,321	4,978
Work in progress	28	68
	286,994	341,182

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩3,310,901 million (2015: ₩4,088,622 million).

14. Other Assets and Other Accounts Receivable

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

(in millions of Korean won)	**2016**	**2015**
Advance payments	34,460	41,384
Prepaid expenses	3,956	1,957
Other quick assets	996	1,118
Other current assets	39,412	44,459
Leasehold deposits	3,319	3,310
Long-term prepaid expenses	18	223
Other non-current assets	3,337	3,533

As of December 31, 2016 and 2015, other accounts receivable are as follows:

(in millions of Korean won)	**2016**	**2015**
Other accounts receivable	83,652	82,240
Less: allowance for bad debts	(70,185)	(17,716)
Accrued income	8,928	6,982
Guarantee deposits	515	370
Short-term loans	1,209	1,172
	24,119	73,048

The maximum exposure of other current receivables to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

15. Available-for-sale financial assets

The changes in available-for-sale financial assets for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	**2016**	**2015**
At January 1	88,371	64,658
Acquisitions	6,579	3,262
Net losses transfer to equity[1]	(4,439)	20,464
Effects of changes in foreign exchange rates	6	(13)
At December 31	90,517	88,371

[1] The amount is before income tax effect.

As of December 31, 2016 and 2015 available-for-sale financial assets are as follows:

(in millions of Korean won)	**2016**			**2015**
Investee	**Acquisition cost**	**FMV or net asset value**	**Book value**	**Book value**
Non-marketable equity				
Korea Ras Laffan LNG Ltd. [1]	3,490	79,845	79,845	84,507
Drayton Coal Shipping Pty Limited [2]	250	250	250	244
SEGINIAGA(M) SDN. BHD. [2]	159	49	159	159
Hyundai Miraero Co., Ltd.[3]	6,579	7,916	6,579	-
Others[2]	31,160	8,213	20	19
Debt securities				
Others	3,262	3,664	3,664	3,442
	44,900	99,937	90,517	88,371

[1] The Group recognized a gain of ₩76,355 million (2015: ₩81,017 million) (before reflecting tax effects) as a result of measuring Korea Ras Laffan LNG Ltd. shares at fair value (Note 5).

[2] The fair values of non-marketable equity securities could not be reliably estimated due to the lack of financial information of the said companies. Accordingly, these equities were presented at their acquisition cost. When the recoverable value is less than the acquisition cost, impairment losses are recognized in the consolidated statements of income.

[3] During the year, the Group has newly acquired equity instrument, which is measured at cost as the difference between the fair value and the acquisition cost is not material.

16. Investments in Associates

As of December 31, 2016 and 2015, associates are as follows:

(in millions of Korean won)	Percentage of ownership(%) 2016	2015	Location	Date of financial statements	Description
Associates					
PTHD Intl. DEVE.[1]	55.00	55.00	Indonesia	December 31	Management of facaility
KOREA LNG LIMITED	20.00	20.00	Bermuda	December 31	OMAN LNG development
HYUNDAI YEMEN LNG COMPANY LIMITED[1]	51.00	51.00	Bermuda	December 31	Yemen LNG development
PT. HYUNDAI MACHINERY INDONESIA	48.61	48.61	Indonesia	December 31	Manufacture and sale of heavy equipment
QINGDAO HYUNDAI SHIPBUILDING CO., LTD.[2]	-	30.59	China	December 31	Shipbuilding and repairs
H&DE CO., LTD.	34.00	-	Korea	December 31	Aluminum forging

[1] The Group cannot exercise control due to agreement with investors, the above companies were excluded from subsidiaries.
[2] Reclassified as assets held for sale due to the equity transfer contract for the year ended December 31, 2016(Note 38).

Details of valuation of investments in associates under the equity method for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016 Beginning balance	Acquisition (Disposal)	Gain or loss on equity method investments	Other comprehensive income or loss	Others	Ending balance
PTHD INTI. DEVE.	1,246	-	221	77	-	1,544
KOREA LNG LIMITED	59,038	-	6,396	(3,994)	(6,342)	55,098
HYUNDAI YEMEN LNG COMPANY LIMITED	210,174	-	(68)	(55,581)	-	154,525
PT. HYUNDAI MACHINERY INDONESIA	-	-	-	-	-	-
QINGDAO HYUNDAI SHIPBUILDING CO., LTD.	9,376	-	(3)	4	(9,377)	-
H&DE CO., LTD.	-	3,400	(11)	-	-	3,389
	279,834	3,400	6,535	(59,494)	(15,719)	214,556

(in millions of Korean won)	2015 Beginning balance	Acquisition (Disposal)	Gain or loss on equity method investments	Other comprehensive income or loss	Others	Ending balance
PTHD INTI. DEVE.	1,292	-	469	(52)	(463)	1,246
KOREA LNG LIMITED	78,707	-	12,363	(19,835)	(12,197)	59,038
HYUNDAI YEMEN LNG COMPANY LIMITED	244,023	-	10,733	(34,340)	(10,242)	210,174
PT. HYUNDAI MACHINERY INDONESIA	-	-	(15)	15	-	-
Hyundai Energy&Resources Co.,LTD.[1]	4,892	(4,750)	(25)	-	(117)	-
QINGDAO HYUNDAI SHIPBUILDING CO., LTD.	12,384	-	(3,046)	38	-	9,376
	341,298	(4,750)	20,479	(54,174)	(23,019)	279,834

[1] Reclassified as a subsidiary from an associate as the Group obtained control during the year ended December 31, 2015.

Summary of condensed financial information of associates and dividends received from associates as of and for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016					
	Assets	Liabilities	Sales and others	Profit or loss for the year	Total comprehensive income(loss)	Dividends
PTHD INTI. DEVE.	3,220	412	4,007	417	542	-
KOREA LNG LIMITED	295,196	19,704	33,054	31,981	12,013	6,342
HYUNDAI YEMEN LNG COMPANY LIMITED	362,057	59,067	-	(133)	(109,115)	-
PT. HYUNDAI MACHINERY INDONESIA	14,048	16,545	20,354	(25)	50	-
H&DE CO., LTD.	9,967	-	-	(33)	(33)	-

(in millions of Korean won)	2015					
	Assets	Liabilities	Sales and others	Profit or loss for the year	Total comprehensive income(loss)	Dividends
PTHD INTI. DEVE.	2,593	328	3,309	853	759	463
KOREA LNG LIMITED	295,226	36	63,585	61,816	(37,359)	12,197
HYUNDAI YEMEN LNG COMPANY LIMITED	459,176	47,071	21,282	21,044	(46,292)	10,241
PT. HYUNDAI MACHINERY INDONESIA	9,559	11,906	13,310	(1,372)	(1,381)	-
QINGDAO HYUNDAI SHIPBUILDING CO., LTD.	16,895	19,507	61	(9,956)	(9,832)	-

Details of adjustments from financial information of associates to their book value for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016		
	Interests in net assets	Others	Book value
PTHD INTI. DEVE.	1,544	-	1,544
KOREA LNG LIMITED	55,098	-	55,098
HYUNDAI YEMEN LNG COMPANY LIMITED	154,525	-	154,525
PT. HYUNDAI MACHINERY INDONESIA	(1,214)	1,214	-
H&DE CO., LTD.	3,389	-	3,389

(in millions of Korean won)	2015				
	Interests in net assets	Goodwill	Intergroup transactions	Others	Book value
PTHD INTI. DEVE.	1,246	-	-	-	1,246
KOREA LNG LIMITED	59,038	-	-	-	59,038
HYUNDAI YEMEN LNG COMPANY LIMITED	210,174	-	-	-	210,174
PT. HYUNDAI MACHINERY INDONESIA	(1,141)	-	(97)	1,238	-
QINGDAO HYUNDAI SHIPBUILDING CO,. LTD.	(799)	10,175	-	-	9,376

Accumulated unrecognized changes in equity due to discontinued use of equity method for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016		2015	
	Unrecognized profit	Unrecognized accumulated losses	Unrecognized loss	Unrecognized accumulated losses
PT. HYUNDAI MACHINERY INDONESIA	64	(1,214)	(672)	(1,238)

17. Investments in Exploration of Resources

As of December 31, 2016 and 2015, the Group organized a consortium that includes Korea National Oil Corporation to invest in resource exploration projects, and the details are as follows:

(in millions of Korean won)

Project name	Accounts	2016	2015	Remarks
Vietnam (11-2prospect)	Mining rights	17,486	18,847	Commernced in 2007
Yemen LNG[1]	Development projects	3,946	-	
	Equity method investments	154,525	210,174	Commernced in 2009
	Long-term loans	19,272	17,576	
West Kamchatka Prospect[2]	Development projects	4,786	4,786	Under liquidation
Oman LNG (KOLNG)	Equity method investments	55,098	59,038	Commernced in 2000
Qatar LNG(KORAS)	Available-for-sale financial assets	79,845	84,507	Commernced in 1999
Drayton Coal Mine	Available-for-sale financial assets	250	244	Commernced in 1983
and others	Mining rights	1,399	1,351	

[1] The Group entered into a sales contract with Korea Gas Corporation, Suez LNG Trading S.A. and Total Gas & Power Ltd., through Hyundai Yemen LNG Company Limited. Meanwhile, the production has been suspended due to Yemen civil war since April 2015. As of December 31, 2016, production resumption cannot be predicted.
[2] The investments in petroleum development projects in oilfield in West Kamchatka (Russia) whose liquidation is in progress are valued at their recoverable amount.

As of December 31, 2016 and 2015, the revenues from investments in resource exploration are as follows:

(in millions of Korean won)

Project name	Description	2016	2015
Vietnam (11-2prospect)	Sales	7,956	9,990
Yemen LNG	Gain or loss on equity-method valuation	(68)	10,733
Oman LNG (KOLNG)	Gain or loss on equity-method valuation	6,396	12,363
Qatar LNG(KORAS)	Dividend income	2,795	8,082
Drayton Coal Mine	Sales	2,417	4,463
		19,496	45,631

The percentages of ownership in investments in the exploration of resources as of December 31, 2016, are as follows:

	Consortium ownership in investments[1]	Percentage of ownership of the Company in consortium[2]
Vietnam (11-2prospect)	75.0 %	6.5 %
Yemen LNG	5.9 %	51.0 %
Oman LNG (KOLNG)	5.0 %	20.0 %
Qatar LNG(KORAS)	5.0 %	8.0 %
Drayton Coal Mine	100.0 %	2.5 %

[1] Ownership of the consortium in these entities.
[2] The Group's share in the consortium.

18. Property and Equipment

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

(in millions of Korean won)	2016		
	Buildings	**Others**	**Total**
At January 1	2,434	2,822	5,256
Acquisition	14	328	342
Disposal	-	(16)	(16)
Depreciation[1]	(130)	(1,036)	(1,166)
Changes in foreign exchange rates	-	-	-
Changes in consolidation scope	19	26	45
At December 31	2,337	2,124	4,461
Acquisition cost	6,253	12,200	18,453
Accumulated depreciation	(2,077)	(10,076)	(12,153)
Accumulated impairment losses	(1,839)	-	(1,839)

(in millions of Korean won)	2015		
	Buildings	**Others**	**Total**
At January 1	1,963	3,121	5,084
Acquisition	550	989	1,539
Disposal	-	(115)	(115)
Depreciation[1]	(112)	(1,183)	(1,295)
Changes in foreign exchange rates	33	35	68
Changes in consolidation scope	-	30	30
Transfer[2]	-	(55)	(55)
At December 31	2,434	2,822	5,256
Acquisition cost	6,199	12,058	18,257
Accumulated depreciation	(1,926)	(9,236)	(11,162)
Accumulated impairment losses	(1,839)	-	(1,839)

[1]Depreciation expense of ₩153 million (2015: ₩133 million) was charged to 'cost of sales' and ₩1,013 million (2015: ₩1,162 million) to 'selling and administrative expenses', and includes depreciation cost of ₩19 million reflected in profits and losses of discontinued operations for the year ended December 31, 2015.
[2]Transferred to the newly established company due to the spin-off of the Company for the year ended December 31, 2015.

19. Intangible Assets

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

(in millions of Korean won)	2016		
	Mining rights	**Others**	**Total**
At January 1	20,199	10,984	31,183
Acquisition and others	5,429	118	5,547
Amortization[1]	(6,773)	(625)	(7,398)
Disposal	-	(52)	(52)
Changes in foreign exchange rates	30	20	50
At December 31	18,885	10,445	29,330

(in millions of Korean won)	2015		
	Mining rights	**Others**	**Total**
At January 1	23,155	32,764	55,919
Acquisition and others	7,324	421	7,745
Amortization[1]	(8,788)	(968)	(9,756)
Disposal	-	(1,156)	(1,156)
Changes in foreign exchange rates	(145)	36	(109)
Changes in consolidation scope	-	653	653
Transfer[2]	-	(20,765)	(20,765)
Impairment loss	(1,348)	-	(1,348)
At December 31	20,198	10,985	31,183

[1]Amortization of mining rights and other intangible assets is classified as cost of sales, and selling and administrative expenses, respectively. The depreciation cost of ₩12 million has been included in profits from discontinued operations for the year ended December 31, 2015.
[2]Transferred to the newly established company due to the spin-off of the Company during the year ended December 31, 2015.

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

(in millions of Korean won)	**2016**	**2015**
Membership rights	9,607	9,548
Others	838	1,437
	10,445	10,985

20. Other Liabilities

As of December 31, 2016 and 2015, other current liabilities are as follows:

(in millions of Korean won)	**2016**	**2015**
Deposits	3,043	6,006
Guarantee deposits	128	115
Accrued expenses	1,785	1,430
Other current liabilities	57	48
	5,013	7,599

21. Long- term and Short-term Borrowings

As of December 31, 2016 and 2015, long-term and short-term borrowings are as follows:

(in millions of Korean won)

Type	Purpose	Creditor	Interest rate(%)	2016	2015
Foreign currency short-term borrowings	D/A NEGO[1]	WOORI BANK and others	-	262,751	260,106
	USANCE	The Korea Development Bank and others	0.28~2.20	159,750	27,006
	Operational borrowings	HANA BANK	1.07	349	1,080
				422,850	288,192
Foreign currency long-term borrowings	Investments in petroleum development projects	Korea National Oil Corporation and others	0.75	6,888	8,863
	Financial investments in overseas[2]	CREDIT-AGRICOLE and others	LIBOR(6M)+0.40	1,172	6,585
				8,060	15,448
		Less: Current portion of long-term liabilities		(3,274)	(7,487)
				4,786	7,961

[1] Trade accounts receivable are provided as collateral (Note 9).
[2] The Group is guaranteed by the foreign investment insurance contract with Korea Trade Insurance Corporation in relation to borrowings of foreign investment finance.

The Group has the borrowings of ₩4,786 million, which will not be repaid if the overseas resource exploration project fails.

22. Defined Benefit Liability

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

(in millions of Korean won)	2016	2015
Present value of funded obligations	16,718	15,914
Fair value of plan assets[1]	(14,913)	(14,428)
Defined benefit liabilities	1,805	1,486
Present value of other long-term employee benefits obligations	144	210
	1,949	1,696

[1] Includes deposits to the National Pension Fund of ₩33 million (2015: ₩34 million).

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	**2016**	**2015**
At January 1	15,914	15,782
Current service cost	2,267	2,462
Interest expense	272	297
Remeasurements	1,142	686
Actuarial gains and losses arising from changes in demographic assumptions	(189)	-
Actuarial gains and losses arising from changes in financial assumptions	107	166
Actuarial gains and losses arising from experience adjustments	1,224	520
Transfer from and to related companies	(57)	4
Benefits paid	(2,847)	(2,868)
Changes in consolidation scope	-	562
Changes due to spin-off	-	(1,007)
Changes in foreign exchange rates	27	(4)
At December 31	16,718	15,914

Expected maturity analysis of undiscounted pension benefits as of December 31, 2016, is as follows:

(in millions of Korean won)	**Less than 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**Over 5 years**	**Total**
Pension benefits	3,203	4,649	4,458	21,081	33,391

The weighted average duration of the defined benefit obligations is 6.83 years.

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

(in millions of Korean won)	**2016**	**2015**
At January 1	14,428	14,453
Interest income	292	281
Remeasurements	(80)	(41)
Employer contribution	3,000	3,000
Benefits paid	(2,767)	(2,868)
Transfer from and to related companies	40	-
Changes in consolidation scope	-	520
Changes due to spin-off	-	(917)
At December 31	14,913	14,428

The principal actuarial assumptions as of December 31, 2016 and 2015, were as follows:

(in percentage)	**2016**	**2015**
Discount rate	2.49	2.44
Future salary growth	3.87	3.68

The sensitivity of the overall pension liability as of December 31, 2016, to changes in the weighted principal assumptions is:

	Changes in principal assumption	**Impact on overall liability**
Discount rate	1% increase / decrease	4.42%decrease/ 5.00%increase
Future salary growth	1% increase / decrease	4.89%increase/ 4.41%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 consolidated statement of financial position.

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

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

(in millions of Korean won)	**2016**		**2015**	
	Amount	**Composition (%)**	**Amount**	**Composition (%)**
Contributions to the National Pension	33	0.2	34	0.2
Financial Instruments	14,880	99.8	14,394	99.8
	14,913	100.0	14,428	100.0

23. Provisions

Details and changes of provisions for liabilities and charges for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	2016			
	Warranty	**Restoration**[1]	**Others**	**Total**
At January 1	718	3,173	2,115	6,006
Addition	-	144	1,315	1,459
Reversal	(701)	(383)	(503)	(1,587)
Other changes	1	104	55	160
At December 31	18	3,038	2,982	6,038
Less: current	(18)	-	-	(18)
Non-current	-	3,038	2,982	6,020

(in millions of Korean won)	2015			
	Warranty	**Restoration**[1]	**Others**	**Total**
At January 1	717	2,916	1,959	5,592
Addition	-	151	633	784
Reversal	-	(86)	(377)	(463)
Other changes	1	192	(100)	93
At December 31	718	3,173	2,115	6,006
Less: current	(718)	-	-	(718)
Non-current	-	3,173	2,115	5,288

[1] The carrying amount of restoration as of December 31, 2016, is netted against the restoration reserve of ₩1,798 million (2015: ₩1,373 million).

24. Tax Expense and Deferred Tax

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

(in millions of Korean won)	**2016**	**2015**
Current tax on profits for the year	22,540	13,515
Origination and reversal of temporary differences	(9,256)	(841)
Income tax expense[1]	13,284	12,674

[1] In 2015, corporate tax of ₩1,658 million has been included in profit from discontinued operations.

The difference between tax on the Group's profit before tax and the theoretical amount that would arise using the weighted average tax rate applicable to profits for the years ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	**2016**	**2015**
Income before tax	21,351	159,904
Tax calculated at domestic tax rates applicable to profits in the respective countries	8,139	40,271
Tax effects of:		
Income not subject to tax/ Expenses not deductible for tax purposes	474	(21,738)
Impact of tax credit	(85)	(5,859)
Others	4,756	-
Income tax expense[1]	13,284	12,674

[1] In 2015, corporate tax of ₩1,658 million has been included in profit from discontinued operations.

The income tax (charged) / credited directly to equity for the years ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	**2016**		
	Before tax	**Tax (charge credit)**	**After tax**
Fair value gains from available-for-sale	(4,662)	1,128	(3,534)
Changes in equity of equity method investees	(59,494)	14,417	(45,077)
Gain(loss) on derivatives	(414)	100	(314)
Foreign operation currency translation differences	2,304	(470)	1,834
Remeasurement of net defined benefit liability	(1,222)	296	(926)

(in millions of Korean won)	**2015**		
	Before tax	**Tax (charge credit)**	**After tax**
Fair value gains from available-for-sale	20,284	(4,909)	15,375
Changes in equity of equity method investees	(54,174)	13,111	(41,063)
Foreign operation currency translation differences	1,208	(382)	826
Remeasurement of net defined benefit liability	(728)	179	(549)

As of December 31, 2016 and 2015, the analyses of deferred tax assets and deferred tax liabilities are as follows:

(in millions of Korean won)	**2016**	**2015**
Deferred tax assets		
Deferred tax asset to be recovered within than 12 months	880	789
Deferred tax asset to be recovered after more 12 months	21,470	10,244
	22,350	11,033
Deferred tax liabilities		
Deferred tax liability to be recovered within than 12 months	(1,284)	(1,037)
Deferred tax liability to be recovered after more 12 months	(79,432)	(93,089)
	(80,716)	(94,126)
Deferred tax assets(liabilities), net	(58,366)	(83,093)

Changes in the deferred assets and liabilities for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	2016			
	January 1	**Income statement**	**Other comprehensive income**	**December 31**
Available-for-sale financial assets	(14,558)	8,041	1,128	(5,389)
Investments in subsidiaries, joint ventures and associates	(68,653)	(1,950)	13,947	(56,656)
Intangible assets	-	91	-	91
Allowance for bad debts	658	2,897	-	3,555
Gain (loss) on foreign currency translation	43	(243)	-	(200)
Provisions	975	(201)	-	774
Net defined benefit liabilities	131	(389)	296	38
Others	(1,689)	1,010	100	(579)
	(83,093)	9,256	15,471	(58,366)

(in millions of Korean won)

	2015				
	January 1	**Income statement**	**Other comprehensive income**	**Change in consolidation scope**	**December 31**
Available-for-sale financial assets	(9,595)	(54)	(4,909)	-	(14,558)
Investments in subsidiaries, joint ventures and associates	(80,744)	(638)	12,729	-	(68,653)
Intangible assets	(750)	750	-	-	-
Allowance for bad debts	581	77	-	-	658
Gain (loss) on foreign currency translation	(69)	112	-	-	43
Provisions	876	99	-	-	975
Net defined benefit liabilities	119	(183)	179	16	131
Others	(2,351)	678	-	(16)	(1,689)
	(91,933)	841	7,999	-	(83,093)

Realization of the future tax benefits related to deferred tax assets is dependent on many factors, including the Group’s ability to generate taxable income within the period during which the temporary differences reverse, the outlook of the Korean economic environment, and the overall future industry outlook. Management periodically considers these factors in reaching its conclusion. The Group has not recognized deferred tax assets of ₩83,211 million related to subsidiaries and associates whose realizability is uncertain and such amount can be changed if estimation of the future tax benefits changes.

25. Accumulated Other Comprehensive Income and Other Components of Equity

As of December 31, 2016 and 2015, accumulated other comprehensive income and other components of equity are as follows:

(in millions of Korean won)		
Other components of equity	**2016**	**2015**
Treasury stock	(7,310)	(152)
Loss from spin-off[1]	(242,051)	(242,051)
Adjustment on other components of equity	(18,865)	(18,865)
	(268,226)	(261,068)
Accumulated other comprehensive income		
Fair value gains from available-for-sale financial assets	57,877	61,411
Changes in equity of equity method investees	156,602	201,679
Gain(loss) on derivatives	(314)	-
Foreign operation currency translation differences	(6,221)	(8,045)
	207,944	255,045

[1]This loss represents the group of assets that should be distributed to the shareholders according to spin-off at fair value, and includes costs from asset decrease.

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

(in millions of Korean won)	**2016**	**2015**
At January 1	255,045	279,919
Other increase/decrease	(47,101)	(24,874)
At December 31	207,944	255,045

26. Retained Earnings

As of December 31, 2016 and 2015, retained earnings consist of:

(in millions of Korean won)	**2016**	**2015**
Legal reserve[1]	6,016	5,024
Unappropriated retained earnings	420,145	424,023
	426,161	429,047

[1] The Commercial Code of the Republic of Korea requires the Group 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 capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock 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).

The dividends paid in 2016 and 2015 were ₩9,918 million (₩750 per share) and ₩11,165 million (₩500 per share), respectively. A dividend in respect of the year ended December 31, 2016, of ₩500 per share, amounting to total dividends of ₩6,447 million, is to be proposed at the annual general meeting on March 24, 2017. These financial statements do not reflect this dividend payable.

27. Sales and Cost of sales

Sales for the years ended December 31, 2016 and 2015, consist of:

(in millions of Korean won)	**2016**	**2015**
Sales		
Sales	3,518,495	4,220,751
Commisions	29,899	26,697
Resource development	10,373	14,452
	3,558,767	4,261,900

Sales of ₩97,773 million has been included in profit from discontinued operations for the year ended December 31, 2015.

Cost of sales for the years ended December 31, 2016 and 2015, consist of:

(in millions of Korean won)	**2016**	**2015**
Cost of sales		
Cost of sales	3,424,924	4,127,428
Cost of commisions	14,785	14,100
Cost of resource development	12,424	14,778
	3,452,133	4,156,306

Cost of sales of ₩81,214 million has been included in profit from discontinued operations for the year ended December 31, 2015.

28. Selling and Administrative Expenses

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

(in millions of Korean won)	**2016**	**2015**
Wages and salaries	34,886	32,668
Severance benefits	2,181	2,163
Employee benefits	3,961	4,109
Travel expense	3,700	3,769
Taxes and dues	1,197	1,191
Entertainment expense	1,695	1,782
Overseas branches expense	10,398	10,695
Rental expenses	3,402	3,320
Service fees	6,165	7,151
Computer system expense	1,730	1,855
Depreciation	1,013	1,143
Amortization	625	957
Bad debts expense (Reversal of Allowance for Doubtful Accounts)	(248)	5,992
Others	5,447	5,353
	76,152	82,148

Selling and administrative expenses of ₩8,047 million has been included in profit from discontinued operations for the year ended December 31, 2015.

29. Expenses by Nature

Expenses by nature included in the cost of sales, selling and administrative expenses, and other expenses in the income statements for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	**2016**	**2015**
Changes in inventories	3,310,901	4,088,622
Wages and salaries	37,356	35,352
Employee benefits	3,961	4,139
Depreciation	1,166	1,276
Amortization	7,398	9,744
Others	167,503	99,321
Total[1]	3,528,285	4,238,454

[1]The total equals to the sum of cost of sales, selling and administration expenses in the consolidated statements of income. Expenses of ₩89,261 million has been included in profit from discontinued operations for the year ended December 31, 2015

30. Other non-operating Income and Expenses

Other non-operating income for the years ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	**2016**	**2015**
Gain on foreign currency assets and liabilities	72,883	77,500
Dividends	2,890	8,164
Gain on derivatives	12,208	11,184
Gain on exemption of debt	48,638	-
Others	4,723	4,087
	141,342	100,935

Other non-operating income of ₩603 million has been included in profit from discontinued operations for the year ended December 31, 2015.

Other non-operating expenses for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)	**2016**	**2015**
Loss on foreign currency assets and liabilities	63,929	78,846
Loss on derivatives	12,037	10,912
Financial expenses of disposal of trade receivables	2,348	3,283
Other bad debts expense	64,582	10,793
Others	3,861	4,848
	146,757	108,682

Other non-operating expenses of ₩959 million has been included in profit from discontinued operations for the year ended December 31, 2015.

31. Finance Income and Expenses

Finance income for the years ended December 31, 2016 and 2015, consists of:

(in millions of Korean won)	**2016**	**2015**
Gain on foreign currency assets and liabilities	37,276	25,923
Interest income	3,772	6,357
	41,048	32,280

Finance expenses for the years ended December 31, 2016 and 2015, consist of:

(in millions of Korean won)	**2016**	**2015**
Loss on foreign currency assets and liabilities	44,076	24,842
Interest expense	7,223	5,244
	51,299	30,086

32. Earnings per Share

Earnings per share for the years ended December 31, 2016 and 2015, is computed as follows:

(in Korean won)	**2016**	**2015**
Income from continued operations attributable to controlling shareholders	7,958,542,935	27,287,887,930
Income from discontinued operations attributable to controlling shareholders	-	119,872,084,905
	7,958,542,935	147,159,972,835
Weighted Average	13,181,949	20,034,725
Basic earnings per share[1]		
Basic earnings per share from continuing operations	604	1,362
Basic earnings per share from discontinuing operations	-	5,983
Basic earnings per share	604	7,345

[1] The Group did not issue any potential ordinary shares. Therefore, diluted earnings per share is identical to the basic earnings per share.

Weighted average for the years ended December 31, 2016 and 2015, is computed as follows:

	2016	**2015**
Ordinary shares outstanding at the beginning of the year	13,228,966	22,329,802
Spin-off	-	(2,293,909)
Purchase of treasury shares	(47,017)	(1,168)
Weighted Average	13,181,949	20,034,725

33. Cash Generated from Operations

Reconciliation between operating profit and net cash inflow (outflow) from operating activities is as follows:

(in millions of Korean won)	**2016**	**2015**
Income for the year	8,067	147,230
Adjustment		
Interest income	(3,772)	(6,357)
Interest expense	7,223	5,244
Dividends	(2,890)	(8,164)
Tax expense	13,284	12,674
Depreciation	1,166	1,295
Amortization	7,398	9,756
Loss on impairment of intangible assets	-	1,348
Provision for severance benefits	2,247	2,478
Bad debts expense(Reversal of Allowance for Doubtful Accounts)	(248)	6,007
Finance expenses of disposal of trade receivables	2,348	3,283
Gain on equity-method of investments in associates	(6,535)	(20,479)
Gain on valuation of derivatives	579	(219)
Gain on foreign currency translation	(916)	(1,351)
Other bad debt expenses	64,582	10,793
Gain on exemption of debts	(48,638)	-
Gain on disposal of discontinued operations	-	(113,374)
Others	(496)	(1,637)
	35,332	(98,703)
Changes in operating assets and liabilities		
Trade accounts receivable	(33,535)	185,915
Inventories	58,217	(100,839)
Other accounts receivable	595	(7,666)
Other current assets	5,947	2,687
Other non-current assets	(44)	705
Trade accounts and notes payable	16,420	(55,225)
Other payables	(23,414)	(2,577)
Advances from customers	544	(16,646)
Other assets and liabilities	(5,641)	1,496
	19,089	7,850
Cash generated from operations	62,488	56,377

Significant transactions not affecting cash flows are as follows:

(in millions of Korean won)	**2016**	**2015**
Reclassification to current portion from long-term borrowings	3,274	7,487
Reclassification to current portion from loans	-	10,803

34. Commitments and Contingencies

As of December 31, 2016, the Group is contingently liable for guarantees amounting to US$ 29,645 thousand for operating activities to financial institutions.

As of December 31, 2016, the Group provided notes and checks, including 12 blank notes as collaterals for the Group's various borrowings and guarantees of indebtedness.

As of December 31, 2016, the Group has filed four lawsuits claiming US$ 5,187 thousand in damages. As the outcome of these cases cannot be reasonably determined, the Group has not reflected any adjustments that may arise from this uncertainty.

Commitments for trade financial transactions with Korea Exchange Bank and others as of December 31, 2016, are as follows:

(in thousands of US dollars)	**Maximum amount[1]**	**Used amount**
D/A, D/P[2]	541,614	343,710
L/C and others	564,610	391,049
Bonds and others	177,887	66,222
	1,284,111	800,981

[1] Maximum amount including comprehensive limit.
[2] Includes USD 23,230 thousand used for disposal of D/A, D/P trade receivables without recourse.

The Group has pledged vessels and others held by TM SHIPPING CO., LTD. as collateral in relation to loans to TM SHIPPING CO., LTD. amounting to US$21 million (equivalent to ₩ 25,649 million).

In 2016, the Group received tax notification of ₩ 7,160 million related to corporate tax of prior period. The Group will raise objection to the imposition of corporate tax, and expects that it is highly possible to receive tax refund.

In 2016, the Group recognized the effect of the decision on arbitration with HYUNDAI HEAVY INDUSTRIES CO.,LTD regarding payment of power material and machinery on consolidated financial statements (Note 30).

35. Derivatives

Details of the changes in valuation gain or loss on derivatives for years ended December 31, 2016 and 2015, are as follows:

	2016		**2015**	
(in millions of Korean won)	**Gain**	**Loss**	**Gain**	**Loss**
Foreign currency forward	1,248	1,828	1,385	1,166
Commodity futures	396	825	-	3
	1,644	2,653	1,385	1,169

The Group entered into currency forward contracts in order to hedge its risk of fluctuation in the exchange rate of assets and liabilities denominated in foreign currencies with Korea Exchange Bank. These agreements were classified as trading instruments and related derivatives assets and liabilities amount to ₩1,460 million and ₩2,236 million, respectively.

Details of foreign currency forward contracts that are not past due as of December 31, 2016, are as follows:

Position	Contract amounts	
USD Selling	USD	24,825,021
USD Buying	USD	3,860,213
EUR Selling	EUR	22,671,684
EUR Buying	EUR	7,749,154
JPY Selling	JPY	1,210,185,507

In addition, per the commodity futures contract, the Group applies fair value hedge accounting. These agreements are measured at fair value, and the related derivatives assets and liabilities amount to ₩396 million and ₩825 million, and firm contract assets and liabilities amount to ₩2 million.

36. Related Party Transactions

Details of associates and other related parties that have sales and other transactions with the Group or have receivables and payables balances as of December 31, 2016 and 2015, are as follows:

	2016	2015
Entities with significant influence over the Company	HYUNDAI C&F INC.	HYUNDAI C&F INC.
Joint venture and associates	PT. HYUNDAI MACHINERY INDONESIA	PT. HYUNDAI MACHINERY INDONESIA
	KOREA LNG LIMITED	KOREA LNG LIMITED
	HYUNDAI YEMEN LNG COMPANY LIMITED	HYUNDAI YEMEN LNG COMPANY LIMITED
	PT HYUNDAI INTI DEVELOPMENT	PT HYUNDAI INTI DEVELOPMENT
Other related parties	TM Shipping	HYUNDAI HEAVY INDUSTRIES CO., LTD.[1]
		SHIPBUILDING CO.,LTD. HYUNDAI MIPO DOCK YARD CO., LTD.[1]
		HYUNDAI SAMHO HEAVY INDUSTRIES CO., LTD.[1]
		Hyundai Oil Bank Co., Ltd.[1]
		Hyundai Oilbank(Singapore) Co., Ltd.[1]
		HI INVESTMENT & SECURITIES CO., LTD.[1]
		Hyundai Power Transformers USA, Inc.[1]
		TM Shipping
		Hyundai and Shell Base Oil Co., Ltd[1]
		HYUNDAI Heavy Industries Bulgaria[1]

[1] As of December 31, 2015, HYUNDAI HEAVY INDUSTRIES CO., LTD. and its subsidiaries are excluded from the related parties as HYUNDAI HEAVY INDUSTRIES CO., LTD. sold most of its shares in the Company.

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

(in millions of Korean won)

		2016		2015	
		Sales and others[1]	Purchase and others[2]	Sales and others[1,3]	Purchase and others[2,3]
Entities with significant influence	HYUNDAI C&F INC.	3,406	2,283	180	7
over the Company	HYUNDAI HEAVY INDUSTRIES CO., LTD.[4]	-	-	5,449	643,544
Joint venture and associates	PT. HYUNDAI MACHINERY INDONESIA	-	-	1,315	-
	HYUNDAI YEMEN LNG COMPANY LIMITED	369	-	334	-
	Others	-	-	13	312
Other related parties	Hyundai Oil Bank Co., Ltd.[4]	-	-	-	301,262
	Hyundai Oilbank(Singapore) Co., Ltd.[4]	-	-	-	4,170
	TM Shipping	3,579	-	1,565	-
	Others[4]	-	-	299	4,590
	Total	7,354	2,283	9,155	953,885

[1] Includes merchandise sales, commission income, gain on investments in exploration of resources, and other revenues.

[2] Includes purchase of goods and services.
[3] Includes amounts transferred to discontinued operation.
[4] Excluded from the related parties as of December 31, 2016.

Significant receivables and payables with related parties as of December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

		2016		2015	
		Receivables and others[1]	Payables and others[2]	Receivables and others[1]	Payables and others[2]
Entities with significant influence over the Company	HYUNDAI C&F INC.	7,386	1,869	5,803	441
Joint venture and associates	PT. HYUNDAI MACHINERY INDONESIA	1,215	-	6,101	-
	HYUNDAI YEMEN LNG COMPANY LIMITED	11,329	-	6,793	-
Other related parties	TM Shipping	2,904	-	152	-
		22,834	1,869	18,849	441

[1] The amounts include trade accounts receivable, other accounts receivable, other current assets, investments in development projects, long-term loans receivable (related to investments in exploration of resources), other non-current assets and others.
[2] The amounts include trade accounts and notes payable, other payables, advances from customers, other current liabilities and others.

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

(in millions of Korean won)

	2016						
	Beginning balance	Increase	Recovery	Foreign currency translation	Ending balance	Receipt of dividends	Provision of dividends
HYUNDAI YEMEN LNG COMPANY LIMITED	17,576	1,096	-	601	19,273	-	-
TM Shipping	25,243	2,267	(2,641)	780	25,649	-	-
KOLNG	-	-	-	-	-	6,342	-
HYUNDAI C&F INC.	-	-	-	-	-	-	1,922

(in millions of Korean won)

	2015						
	Beginning balance	Increase	Recovery	Foreign currency translation	Ending balance	Receipt of dividends	Provision of dividends
HYUNDAI YEMEN LNG COMPANY LIMITED	16,484	-	-	1,092	17,576	10,241	-
TM Shipping	-	31,185	(7,282)	1,340	25,243	-	-
KOLNG	-	-	-	-	-	12,197	-
PT. HYUNDAI INTI DEVELOPMENT	-	-	-	-	-	463	-
HYUNDAI HEAVY INDUSTRIES CO., LTD.	-	-	-	-	-	-	2,496

In addition, the Group acquired convertible bonds issued by TM SHIPPING CO., LTD. with a par value of ₩3.6 billion on February 24, 2015, and separately recognized conversion rights included in the convertible bonds as derivative financial assets. The details are as follows:

(in millions of Korean won)

		Interest rate	Rate of return	Issuance date~ expiry date (convertible periods)	Book value
TM SHIPPING CO., LTD.	Available-for-sale financial assets	0%	3%	2015.2.24~2018.2.23	3,664
TM SHIPPING CO., LTD.	Conversion rights	-	-		338

As of December 31, 2016, bad debt provision amounting to ₩12,085 million was made with respect to the receivables from related parties.

After the capital reduction of Hyundai Energy & Resources Co., Ltd., the Group acquired all of its remaining interests from Hyundai Heavy Industries Co., Ltd. and others for ₩523 million during the year ended December 31, 2015.

The compensation paid or payable to key management for the years ended December 31, 2016 and 2015, consists of:

(in millions of Korean won)	**2016**	**2015**
Wages and salaries	2,221	1,699
Servance benefits	518	(215)
	2,739	1,484

37. Spin-off

Upon the approval of the Board of Directors on May 27, 2015, and the shareholders' meeting on August 28, 2015, the Company was split into the existing company HYUNDAI Corporation(trading and petroleum and mineral development division) and the newly established company, HYUNDAI C&F Co., Ltd.(the brand and new business division). The Company has joint obligation to pay the liabilities before the spin-off with Hyundai C&F Co., Ltd.

The spin-off details as follows:

Category	**Details**
Method of stock split	Spin-off
Companies subject to stock split	HYUNDAI Corporation (existing corporation) HYUNDAI C&F Co., Ltd (newly established corporation)
Completion of stock split	October 1, 2015
Partition registration	October 2, 2015

The income statement of consolidated company is divided by discontinued operations and continued operations. The comparative income statement was reclassified. The financial information until spin-off date, regarding brand and newly business division is provided below.

Details of profit or loss related to discontinued operations for the years ended December 31, 2015 is as follows:

(in millions of Korean won)	**2015**
Net sales	97,773
Cost of sales	(81,214)
Gross profit	16,559
Selling and administrative expenses	(8,047)
Operating income	8,512
Other non-operating income	603
Other non-operating expenses	(959)
Income before income tax	8,156
Income tax expense	(1,658)
Profit from discontinued operations	6,498
Gain on disposition of discontinued operations	113,374
Net income from discontinued operations	119,872

Cash flows related to the discontinued operations for the years ended December 31, 2015 is as follows:

(in millions of Korean won)	**2015**
Cash flows from operating activities	(7,055)
Cash flows from investing activities	31
Cash flows from financing activities	478
	(6,546)

Derecognized assets and liabilities due to spin-off are as follows.

(in millions of Korean won)	
Current assets	
Cash and cash equivalents	125,000
Inventories	33,485
Trade receivables	7,351
Non-current assets	
Intangible assets	20,837
Total assets	186,673
Current liabilities	
Other payables	1,434
Advances from customers	4,923
Short-term borrowings	478
Non-current liabilities	
Deferred income tax liabilities	701
Total liablities	7,536
Net assets	179,137

In cases where the carrying amount of a Group of assets that are classified as held for distribution to owners is primarily collected through distribution and if the likelihood of distribution is highly probable, they are classified as ‘a group of assets classified as held for distribution to owners’, and measured at the lower of carrying amount and fair value less costs to distribute.

In cases where there are non-reciprocal distributions of non-cash assets by the Company to its owners and if all owners are treated equally, the dividend payable is recognized when the Company declares the distribution and has the obligation to distribute the assets. The dividend payable is measured at the fair value of the non-cash assets to be distributed.

The dividend payable is re-measured at the book closing date and recognized as equity. The difference between the non-cash asset that is subject to distribution and the recognized dividend payable is recognized as gains on disposition of discontinued operations for the year.

38. Disposal of an Associate

In 2016, the Group disposed of the common shares of QINGDAO HYUNDAI SHIPBUILDING CO., LTD., an associate, as follows:

Category	Details
Percentage of disposed shares	30.59%
Disposal price	USD 8,000,000
The other party	Guoqing Holdings
Contract date	March 30, 2016

39. Merger of Subsidiary

Upon the approval of the Board of Directors on June 8, 2016, the group merged with Hyundai Energy & Resources Co., Ltd., a subsidiary, through small scale merger on July 31, 2016. Details of the merger are as follows:

(a) Summary of merger

	Surviving Company	Merged Company
Name of Company	HYUNDAI CORPORATION	Hyundai Energy & Resources Co.,Ltd.
Location of head office	25, Yulgok-ro 2-gil, Jongno-gu, Seoul Korea	25, Yulgok-ro 2-gil, Jongno-gu, Seoul Korea
Chief executive officer	Monghyuck Chung	Ahnseok Chang
Type of Company	Listed company in the securities maket	Unlisted company

The surviving company, HYUNDAI CORPORATION, did not issue or assign new common shares as the company already owns 100% of shares of the merged company, Hyundai Energy & Resources Co.,Ltd.

(b) Accounting treatments of mergers

The assets and liabilities acquired from the merger with Hyundai Energy & Resources Co., Ltd. were recognized as the book amount on the consolidated financial statements of the Group at the merger date. Details are as follows:

(in millions of Korean won)

Consideration on July 31, 2016		
Decrease of investment in subsidiaries	₩	1,218
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	496
Trade accounts receivable		53
Other accounts receivable		11

Property, plant and equipment		6
Intangible assets		613
Other non-current receivable		60
Net defined benefit asset		10
Other payables		(2)
Other current liabilities		(29)
	₩	1,218

40. United States Dollar Amounts

The Group operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollar amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US$1: ₩1,208.5, the exchange rate in effect on December 31, 2016. Such presentation is not in accordance with generally accepted financial accounting standards in either the Republic of Korea or the United States, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.