HYUNDAI CORPORATION and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016

HYUNDAI CORPORATION and Subsidiaries
Index
December 31, 2017 and 2016

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 (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

Management's responsibilities for the financial statements

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

Auditor's responsibilities

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on 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 significant 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 at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean IFRS.

Other Matter

The accompanying consolidated financial statements as of and for the years ended December 31, 2017 and 2016, have been translated into US dollars solely for the convenience of the reader and have been translated on the basis set forth in Note 37 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 15, 2018

This report is effective as of March 15, 2018, 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, 2017 and 2016

(in thousands of Korean won and thousands of US dollars)	Notes		2017		2016		2017 (in US dollars) (Note 37)
Assets							
Current assets							
Cash and cash equivalents	4,7,8,11	₩	158,314,278	₩	193,585,624	$	147,764
Short-term financial instruments	4,7,8		-		10,084,945		-
Trade receivables	4,7,8,9,12,36		516,237,605		563,603,275		481,835
Inventories	13		239,509,235		286,993,968		223,548
Derivative financial assets	4,5,7,8,35		1,836,014		2,194,106		1,714
Other current receivables	4,7,8,14,36		33,947,064		24,119,413		31,685
Other current assets	14,36		41,297,051		39,411,944		38,545
Current tax assets			1,965,833		-		1,835
			993,107,080		1,119,993,275		926,926
Assets held for sale			-		9,668,000		-
Non-current assets							
Long-term financial instruments	4,7,8,10		19,000		19,000		18
Available-for-sale financial assets	5,7,15,17		66,017,220		90,516,739		61,618
Investments in joint ventures and associates	16,17		138,849,192		214,555,848		129,596
Long-term loans receivable	4,7,8,17,36		17,754,299		33,034,821		16,571
Investments in development projects	4,7,8,17,36		10,885,181		8,732,037		10,160
Property and equipment	18		3,434,477		4,460,588		3,206
Intangible assets	17,19		23,957,721		29,330,488		22,361
Deferred tax assets	24		1,612,167		536,550		1,505
Other non-current assets	4,7,8,14,36		3,293,068		3,336,972		3,074
			265,822,325		384,523,043		248,109
Total assets		₩	1,258,929,405	₩	1,514,184,318	$	1,175,035
Liabilities							
Current liabilities							
Trade payables	4,7,36	₩	398,969,739	₩	446,180,001	$	372,382
Other payables	4,7,36		65,820,514		71,310,193		61,434
Advances from customers	36		36,913,055		49,540,978		34,453
Short-term borrowings	4,7,9,21,34		337,191,038		422,850,213		314,720
Current portion of long-term borrowings	4,7,21		-		3,273,736		-
Current portion of provisions	23		15,520		17,506		14
Current tax liabilities			648,092		8,228,077		605
Derivative financial liabilities	4,5,7,35		3,456,427		3,062,706		3,226
Other current liabilities	4,7,20,36		4,400,792		5,012,918		4,108
			847,415,177		1,009,476,328		790,942
Non-current liabilities							
Long-term borrowings	4,7,21		4,786,493		4,786,493		4,468
Net defined benefit liability	22		1,700,109		1,804,821		1,587
Provisions	23		4,910,608		6,020,436		4,583
Deferred tax liabilities	24		36,912,503		58,902,293		34,453
Other non-current liabilities			400,992		244,101		375
			48,710,705		71,758,144		45,466
Total liabilities			896,125,882		1,081,234,472		836,408
Equity							
Equity attributable to owners of the Parent Company							
Share capital	1		66,144,830		66,144,830		61,737
Other components of equity	25		(272,994,357)		(268,225,871)		(254,802)
Accumulated other comprehensive income	5,25		125,694,584		207,944,390		117,318
Retained earnings	26		442,930,213		426,160,745		413,413
Equity attributable to owners of the Parent Company			361,775,270		432,024,094		337,667
Non-controlling interest			1,028,253		925,752		960
Total equity			362,803,523		432,949,846		338,627
Total liabilities and equity		₩	1,258,929,405	₩	1,514,184,318	$	1,175,035

The above consolidated statements of financial position should be read in conjunction with the accompanying notes.
The US dollar figures are provided for information purposes only and do not form part of the consolidated financial statements. Refer to Note 37.

HYUNDAI CORPORATION and Subsidiaries
Consolidated Statements of Profit or Loss
Years Ended December 31, 2017 and 2016

(in thousands of Korean won and thousands of US dollars, except per share amounts)	**Notes**		**2017**		**2016**		**2017 (in US dollars) (Note 37)**
Net sales	6,17,27,36	₩	4,305,955,496	₩	3,558,767,403	$	4,018,999
Cost of sales	13,27,29,36		(4,196,020,636)		(3,452,133,242)		(3,916,390)
Gross profit			109,934,860		106,634,161		102,609
Selling and administrative expenses	28,29		(75,947,528)		(76,151,695)		(70,886)
Operating income	6		33,987,332		30,482,466		31,723
Other income	17,30		67,922,631		141,341,829		63,396
Other expenses	30		(103,005,384)		(146,756,741)		(96,141)
Share of net profit of associates accounted for using the equity method	16		6,748,523		6,534,670		6,299
Finance income	31		35,058,424		41,048,018		32,722
Finance costs	31		(30,677,841)		(51,299,012)		(28,633)
Profit before income tax			10,033,685		21,351,230		9,366
Income tax benefit (expense)	24		15,109,370		(13,284,141)		14,102
Profit for the year		₩	25,143,055	₩	8,067,089	$	23,468
Profit is attributable to:							
Owners of the Parent Company			24,978,598		7,958,543		7,428
Non-controlling interests			164,457		108,546		100
Earnings per share attributable to the equity holders of the Parent Company (in won and US dollars)	32						
Basic earnings per share		₩	1,970	₩	604	$	0.56

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

The US dollar figures are provided for information purposes only and do not form part of the consolidated financial statements. Refer to Note 37.

HYUNDAI CORPORATION and Subsidiaries

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2017 and 2016

(in thousands of Korean won and thousands of US dollars)		**2017**		**2016**		**2017 (in US dollars) (Note 37)**
Profit for the year	₩	25,143,055	₩	8,067,089	$	23,468
Other comprehensive income						
Items that will not be reclassified to profit or loss :						
Remeasurements of net defined benefit liabilities		(1,762,488)		(926,307)		(1,645)
Items that may be subsequently reclassified to profit or loss :						
Changes in the fair value of available-for-sale financial assets		(15,785,122)		(3,533,807)		(14,733)
Share of other comprehensive loss of associates		(58,193,011)		(45,077,158)		(54,315)
Loss on valuation of derivative		(1,851,444)		(313,861)		(1,728)
Changes in foreign operation currency translation differences		(6,482,185)		1,834,462		(6,050)
Other comprehensive loss for the year, net of tax		(84,074,250)		(48,016,671)		(78,471)
Total comprehensive loss for the year	₩	(58,931,195)	₩	(39,949,582)	$	(55,003)
Total comprehensive loss for the year is attributable to:						
Owners of the Parent Company		(59,033,697)		(40,068,773)		(55,100)
Non-controlling interest		102,501		119,191		96

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.
The US dollar figures are provided for information purposes only and do not form part of the consolidated financial statements. Refer to Note 37.

HYUNDAI CORPORATION and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2017 and 2016

(in thousands of Korean won and thousands of US dollars)	Attributable to owners of the Parent Company: Share capital	Other components of equity	Accumulated other comprehensive income	Retained earnings	Total	Non-controlling Interest	Total Equity	U.S. Dollars (Note 37)
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	$ 457,323
Comprehensive income								
Profit for the year	-	-	-	7,958,543	7,958,543	108,546	8,067,089	7,529
Remeasurements of net defined benefit liabilities	-	-	-	(926,307)	(926,307)	-	(926,307)	(865)
Changes in the fair value of available-for-sale financial assets	-	-	(3,533,807)	-	(3,533,807)	-	(3,533,807)	(3,298)
Share of other comprehensive loss of associates	-	-	(45,077,158)	-	(45,077,158)	-	(45,077,158)	(42,073)
Loss on valuation of derivative	-	-	(313,861)	-	(313,861)	-	(313,861)	(293)
Changes in foreign operation currency translation differences	-	-	1,823,817	-	1,823,817	10,645	1,834,462	1,712
Transaction with owners								
Dividends	-	-	-	(9,918,250)	(9,918,250)	-	(9,918,250)	(9,257)
Treasury shares	-	(7,157,869)	-	-	(7,157,869)	-	(7,157,869)	(6,681)
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	$ 404,097
Balance at January 1, 2017	₩ 66,144,830	₩ (268,225,871)	₩ 207,944,390	₩ 426,160,745	₩ 432,024,094	₩ 925,752	₩ 432,949,846	$ 404,097
Comprehensive income								
Profit for the year	-	-	-	24,978,598	24,978,598	164,457	25,143,055	23,467
Remeasurements of net defined benefit liabilities	-	-	-	(1,762,488)	(1,762,488)	-	(1,762,488)	(1,645)
Changes in the fair value of available-for-sale financial assets	-	-	(15,785,122)	-	(15,785,122)	-	(15,785,122)	(14,733)
Share of other comprehensive loss of associates	-	-	(58,193,011)	-	(58,193,011)	-	(58,193,011)	(54,315)
Loss on valuation of derivative	-	-	(1,851,444)	-	(1,851,444)	-	(1,851,444)	(1,728)
Changes in foreign operation currency translation differences	-	-	(6,420,229)	-	(6,420,229)	(61,956)	(6,482,185)	(6,050)
Transaction with owners								
Dividends	-	-	-	(6,446,642)	(6,446,642)	-	(6,446,642)	(6,017)
Treasury shares	-	(4,768,486)	-	-	(4,768,486)	-	(4,768,486)	(4,451)
Balance at December 31, 2017	₩ 66,144,830	₩ (272,994,357)	₩ 125,694,584	₩ 442,930,213	₩ 361,775,270	₩ 1,028,253	₩ 362,803,523	$ 338,625

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.
The US dollar figures are provided for information purposes only and do not form part of the consolidated financial statements. Refer to Note 37.

HYUNDAI CORPORATION and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31, 2017 and 2016

(in thousands of Korean won and thousands of US dollars)	**Notes**		**2017**		**2016**		**2017 (in US dollars) (Note 37)**
Cash flows from operating activities							
Cash generated from operations	33	₩	27,016,103	₩	62,487,884	$	25,216
Interest received			4,928,474		1,886,601		4,600
Interest paid			(7,128,880)		(7,084,504)		(6,654)
Dividends			15,264,851		9,232,375		14,248
Income tax refunded (paid)			8,453,082		(19,517,270)		7,890
Net cash inflow from operating activities			48,533,630		47,005,086		45,300
Cash flows from investing activities							
Decrease (increase) disposal of short-term financial instruments, net			10,084,945		(10,060,501)		9,413
Collection of (current portion of) long-term loans receivable			339,252		2,825,847		317
Collection of long-term loans receivable			2,084,220		-		1,945
Disposal of investments in joint ventures and associates			-		505,195		-
Decrease in long-term financial instruments			-		2,000		-
Disposal of assets held for sale			9,173,601		-		8,562
Disposal of property and equipment			81,448		52,277		76
Disposal of intangible assets			1,665,600		48,908		1,555
Increase in leasehold deposits received			96,413		8,871		90
Acquisition of available-for-sale financial assets			-		(6,579,315)		-
Acquisition of investments in joint ventures and associates			(844,200)		(3,400,000)		(788)
Acquisition of investments in development projects			(2,689,806)		(3,807,235)		(2,511)
Long-term loans receivable provided			(859,934)		(3,443,080)		(803)
Acquisition of property and equipment			(369,723)		(342,038)		(345)
Acquisition of intangible assets			(891,329)		(5,546,954)		(832)
Net cash inflow (outflow) from investing activities			17,870,487		(29,736,025)		16,679
Cash flows from financing activities							
Decrease (increase) in short-term borrowings, net			(79,837,934)		127,952,794		(74,517)
Payment of current portion of borrowings			(3,273,736)		(7,486,992)		(3,056)
Dividends paid			(6,446,642)		(9,918,250)		(6,017)
Acquisition of treasury shares			(4,985,369)		(6,939,499)		(4,653)
Net cash inflow (outflow) from financing activities			(94,543,681)		103,608,053		(88,243)
Net increase (decrease) in cash and cash equivalents			(28,139,564)		120,877,114		(26,264)
Effects of exchange rate changes on cash and cash equivalents			(7,131,782)		2,965,536		(6,657)
Cash and cash equivalents at the beginning of the year			193,585,624		69,742,974		180,685
Cash and cash equivalents at the end of the year		₩	158,314,278	₩	193,585,624	$	147,764

The above consolidated statements of cash flows should be read in conjunction with the accompanying notes. The US dollar figures are provided for information purposes only and do not form part of the consolidated financial statements. Refer to Note 37.

1. Organization

The consolidated financial statements, which include those of the Parent Company, HYUNDAI CORPORATION (the "Company"), and its 14 consolidated subsidiaries, including HYUNDAI CORP. USA (collectively referred to as the "Group"), and five associates, including PT HD 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 at December 31, 2017, the Company has 24 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 at December 31, 2017, it has 13,228,966 ordinary shares issued and outstanding, and its share capital amounts to ₩66,145 million after several capital increases, conversions of bonds and capital reduction.

As at December 31, 2017, the Company's major shareholders are as follows:

Shareholders	Number of shares	Percentage of ownership (%)
HYUNDAI CORPORATION HOLDINGS Co.,Ltd.	2,562,000	19.37
KCC Corporation	1,587,475	12.00
Chung Mong-hyuk	1,097,601	8.30
National Pension Service	486,229	3.68
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	5,867,346	44.34
	12,658,966	95.69
Treasury shares	570,000	4.31
	13,228,966	100.00

1.2 Consolidated Subsidiaries

Details of the consolidated subsidiaries as at December 31, 2017 and 2016, are as follows:

Name	Country	Percentage of ownership (%) 2017	2016	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 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 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 GmbH[1]	Germany	100	100	December	Trading
HYUNDAI RENEWABLE LAB	Korea	100	-	December	Photovolatic Power Generation

[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 PT HD 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 at and for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)

	2017					
	Assets	Liablities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
HYUNDAI CORP. USA	128,230	91,823	36,407	448,448	4,399	42
HYUNDAI AUSTRALIA PTY., LTD.	5,505	6,736	(1,231)	14,332	186	241
HYUNDAI JAPAN CO., LTD.	31,525	19,977	11,548	150,558	1,565	542
HYUNDAI CANADA INC.	18,664	11,371	7,293	36,216	(909)	(1,292)
HYUNDAI CORP. EUROPE GMBH	42,885	36,008	6,877	74,134	(745)	(677)
HYUNDAI CORPORATION SINGAPORE PTE. LTD.	182,440	170,650	11,790	917,835	2,367	(958)
HYUNDAI CORPORATION (SHANGHAI) CO., LTD.	3,280	35	3,245	369	(295)	(496)
POS-HYUNDAI STEEL MFG. (I) PVT. LTD.	25,780	8,718	17,062	36,281	2,680	1,653
HYUNDAI ONE ASIA PTE. LTD.	4,978	4,393	585	10,402	303	249
HYUNDAI CORPORATION (CAMBODIA) CO., LTD.	353	332	21	171	(78)	(64)
HYUNDAI CORPORATION PHNOM PENH INVESTMENT CO., LTD.	223	214	9	10	7	6
HYUNDAI PLATFORM CORP	5,354	3,392	1,962	18,050	681	476
HYUNDAI ONE EUROPE GmbH	1,518	2,124	(604)	171	(659)	(659)
HYUNDAI RENEWABLE LAB	1,358	-	1,358	-	(22)	(22)

(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)

1.4 Changes in Scope for Consolidation

Subsidiaries newly included in or excluded from the consolidation for the year ended December 31, 2017:

Subsidiary	Reason
HYUNDAI RENEWABLE LAB	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 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 financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in 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 Policies 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, 2017.

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

Amendments to Korean IFRS 1007 *Statement of Cash flows* require 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.

- 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.

- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities*

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(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 annual reporting period commencing January 1, 2017 and have not been early adopted by the Group are set out below.

- Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The amendments 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 financial statements because the Group is not a venture capital organization.

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

Amendments to Korean IFRS 1102 clarify 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. Amendments also clarify 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. The amendments 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 financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The enactment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactment to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 is 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 three main areas including: (a) classification and measurement of financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

With the implementation of Korean IFRS 1109, the Group is in the process of preparing for internal management process and adjusting accounting system for financial instruments reporting. Also, the Group analyzes the financial effects of applying the standard. However, the following areas are likely to be affected in general.

(a) Classification and Measurement of Financial Assets

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

Business model for the contractual cash flows characteristics	**Solely represent payments of principal and interest**	**All other**
Hold the financial asset for the collection of the contractual cash flows	Measured at amortized cost[1]	Recognized at fair value through profit or loss[2]
Hold the financial asset for the collection of the contractual cash flows and sale	Recognized at fair value through other comprehensive income [1]	
Hold for sale	Recognized at fair value through profit or loss	

[1] A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

[2] Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

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

As at December 31, 2017, the Group owns loans and receivables of ₩ 740,424 million, financial assets available-for-sales of ₩ 66,017 million and financial assets at fair value through profit or loss of ₩ 1,474 million.

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

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

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

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result profit or loss from fair value movements may decrease.

As at December 31, 2017, the Group recognizes financial liabilities of ₩ 808,111 million and financial liabilities at fair value through profit or loss of ₩ 467 million which are measured at amortized cost.

(c) Impairment: Financial Assets and Contract Assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

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

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

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

[2] If the financial instrument has low credit risk at the end of the reporting period, the Group may assume that the credit risk has not increased significantly since initial recognition.

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

(d) Hedge Accounting

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125%) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

- Enactment of Korean IFRS 1115 *Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 will be effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. 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 applies Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018.

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 elect the modified retrospective approach which will recognize the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1 2018, the period of initial application.

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, 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 customers can be recognized:

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

As at December 31, 2017, with the implementation of Korean IFRS 1115, the Group is analyzing the financial effects of applying the standard. And, the following areas are likely to be affected in general.

(a) Identify performance obligation

The Group operates trade business and others as a general trading company. With the implementation of Korean IFRS 1115, the Group identifies performance obligations from contract with a customer. The timing of revenue recognition depends on a performance obligation is satisfied at a point in time or over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time.

(b) Principal versus Agency

Korean IFRS 1115 requires that control of goods and services of the Group should be evaluated before the goods and services are transferred to the customer. The Group plans to judge whether it is a principal or an agent considering the main responsibility to fulfill the commitment to provide utility services, the inventory burden before and after the control is transferred and the possession of price determination authority.

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 Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. 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 measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recoded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. 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 an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount 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 recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

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 each entity operates (the "functional currency"). The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

2.5 Financial Assets

(a) Classification and measurement

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

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

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

(b) Impairment

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

Impairment of loans and receivables is presented as a deduction in an allowance account, and that of other financial assets is directly deducted from their carrying amount. The 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 a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Group classified the financial liability as “borrowings” in the 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 remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within 'other income (expenses)' based on the nature of transactions.

The Group only applies fair value hedge accounting for hedging price risk on metal commodity (aluminum). Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognized in profit or loss within ‘net sales’, together with changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk. The gain or loss relating to the ineffective portion is recognized in profit or loss within ‘other 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 using a recalculated effective interest rate.

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 historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

	Useful lives
Buildings	20 - 30 years
Vehicles	4 - 10 years
Tools and equipment	4 years
Leasehold improvements	4 years
Machinery	10 - 14 years

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

2.9 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

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

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 present as ‘trade payables’, ‘other payables’, ‘borrowings’, ‘other financial liabilities’ and ‘long and short-term borrowings’ in the statement of financial position.

(b) Derecognition

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

2.13 Financial Guarantee Contracts

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

2.14 Provisions

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

2.15 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively. The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

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

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

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

2.16 Employee Benefits

(a) Defined benefit liabilities

The Group has defined benefit plans. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee’s age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

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

(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 course of the business. Amounts disclosed as revenue are net of value added taxes, returns, rebates and discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group 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 and others as a general trading company. Revenue from the sales of goods is recognized when products are delivered to the purchaser.

(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 consolidated financial statements 2017 were approved for issue by the Board of Directors on February 8, 2018 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

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

(a) Income taxes

The 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 at 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 any adverse effects on the financial performance of the Group. 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 foreign currency transactions, 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.

The table below summarizes the impact of increased/decreased of interest rate on the Group's interest income and interest expense for the year. The analysis is based on the assumption that the interest rate has increased/decreased by 0.1% with all other variables held constant.

(in millions of	2017		2016	
Korean won)	10% increase	10% decrease	10% increase	10% decrease
Income effect before tax	(3,678)	3,678	452	(452)

The above sensitivity analysis was performed just for the assets and liabilities denominated in foreign currencies which are not the Group'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 amount for unlisted stocks measured using cost method) of equity securities investment of the Group (excluding subsidiaries, joint ventures and associates) amounts to ₩66,017 million (2016: ₩90,517 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.

(in millions of Korean won)	2017		2016	
	0.1% increase	**0.1% decrease**	**0.1% increase**	**0.1% decrease**
Interest expenses	(43)	43	(43)	43
Interest income	159	(159)	183	(183)

(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 at December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	**2017**	**2016**
Cash and cash equivalents	158,208	193,477
Short-term financial instruments	-	10,085
Trade receivables	516,238	563,603
Other current receivables	33,947	24,119
Derivative financial assets	1,836	2,194
Long-term financial instruments	19	19
Long-term loans receivable	17,754	33,035
Investments in development projects	10,885	8,732
Other non-current assets	3,267	3,319
	742,154	838,583

(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 at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017				
	Less than 1 year	**1~2 years**	**2~3 years**	**Over 3 years**	**Total**
Trade payables	398,970	-	-	-	398,970
Other payables	65,821	-	-	-	65,821
Other current liabilities	1,343	-	-	-	1,343
Derivative financial liabilities	3,456	-	-	-	3,456
Short-term borrowings	337,191	-	-	-	337,191
Long-term borrowings	-	-	-	4,786	4,786
	806,781	-	-	4,786	811,567

(in millions of Korean won)	2016				
	Less than 1 year	**1~2 years**	**2~3 years**	**Over 3 years**	**Total**
Trade payables	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
	947,781	-	-	4,786	952,567

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 at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Liabilities	896,126	1,081,234
Equity	362,804	432,950
Debt-to-equity ratio (%)	247.0	249.7

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 at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017	2016
Drayton Coal Shipping Pty Limited[1]	239	250
SEGINIAGA(M) SDN. BHD.[1]	159	159
EUROTEM DEMIRYOLU ARA-LARI SAN[1]	19	19
Hyundai Miraero Co., Ltd.[1]	6,579	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.

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

The following table presents the Group's financial assets and financial liabilities that are measured at fair value as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Derivative financial assets	-	1,836	-	1,836
Available-for-sale financial assets	-	-	59,021	59,021
Derivative financial liabilities	-	3,456	-	3,456

(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)	**2017**	**2016**
Beginning balance	83,848	88,287
Total profit or loss		
Amount recognized in profit or loss	(4,002)	223
Amount recognized in other comprehensive income[1]	(20,825)	(4,662)
Ending balance	59,021	83,848
Unrealized gains or losses	55,531	76,355

[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 at December 31, 2017 and 2016.

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 at December 31, 2017, are as follows:

(in millions of Korean won)	**Fair value**	**Valuation techniques**	**Inputs**	**Range of inputs**
KOREA Ras Laffan LNG Ltd.	59,021	Present value technique	Discount rate	9.7%
			Unit cost of major products($/mmbtu)	8.47 ~ 12.04
			Period of cash flow projections	FY 2029

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 2018 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 the value of available-for-sale financial assets	3,166	(2,936)

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 plant, vehicle, steel, chemicals, and the Group's business is segmented into industry.

For the years ended December 31, 2017 and 2016, the Group's financial information by segments is as follows:

(in millions of Korean won)	2017			
Segment	**Sales**	**Operating income (loss)[1]**	**Depreciation**	**Amortization**
Plant	471,768	3,420	81	5
Vehicle	1,498,214	22,807	365	93
Steel	1,885,611	8,031	512	86
Chemicals	1,053,697	(917)	188	44
Others	23,535	671	19	1,797
Adjustment of intergroup transactions	(626,870)	(25)	-	-
	4,305,955	33,987	1,165	2,025

(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

[1]This represents amounts excluding gains on equity-method valuation and dividend income (other income) of ₩14,685 million (2016: ₩9,123 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, 2017 and 2016, the Group's sales information by regions is as follows:

(in millions of Korean won)	**2017**	**2016**
America	1,361,890	1,325,018
Asia	2,516,801	2,177,030
Europe	425,800	411,607
Others	628,334	218,734
Adjustment of intergroup transactions	(626,870)	(573,622)
	4,305,955	3,558,767

7. Financial Instruments by Category

As at December 31, 2017 and 2016, financial assets by category, are as follows:

(in millions of Korean won)	2017				
	Loans and receivables	**Financial assets at fair value throught profit or loss**	**Available -for-sale financial assets**	**Derivative financial instruments for hedging**	**Total**
Financial assets					
Cash and cash equivalents	158,314	-	-	-	158,314
Trade receivables	516,238	-	-	-	516,238
Other current receivables	33,947	-	-	-	33,947
Derivative financial assets	-	1,474	-	362	1,836
Long-term financial instruments	19	-	-	-	19
Available-for-sale financial assets	-	-	66,017	-	66,017
Long-term loans receivable	17,754	-	-	-	17,754
Investments in development projects	10,885	-	-	-	10,885
Other non-current assets	3,267	-	-	-	3,267
	740,424	1,474	66,017	362	808,277

(in millions of Korean won)	2016				
	Loans and receivables	**Financial assets at fair value throught profit or loss**	**Available -for-sale financial assets**	**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 receivables	563,603	-	-	-	563,603
Other current receivables	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

As at December 31, 2017 and 2016, financial liabilities by category, are as follows:

(in millions of Korean won)	2017			
	Financial liabilities at amortized cost	**Financial liabilities at fair value throught profit**	**Derivative financial instruments for hedging**	**Total**
Financial liabilities				
Trade payables	398,970	-	-	398,970
Other payables	65,821	-	-	65,821
Other current liabilities	1,343	-	-	1,343
Derivative financial liabilities	-	467	2,989	3,456
Short-term borrowings	337,191	-	-	337,191
Long-term borrowings	4,786	-	-	4,786
	808,111	467	2,989	811,567

(in millions of Korean won)	2016			
	Financial liabilities at amortized cost	**Financial liabilities at fair value throught profit**	**Derivative financial instruments for hedging**	**Total**
Financial liabilities				
Trade payables	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

Net gains or losses on each category of financial instruments for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Interest income	**Interest expense**	**Others**	**Other comprehensive income (loss)**
Loans and receivables	3,902	-	(31,339)	-
Financial assets at fair value through profit or loss	-	-	3,015	-
Available-for-sale financial assets	-	-	8,348	(15,785)
Financial liabilities at amortized cost	-	(7,253)	(4,003)	-
	3,902	(7,253)	(23,979)	(15,785)

(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 at amortized cost	-	(7,223)	-	-
Other financial liabilities	-	-	-	(314)
	3,772	(7,223)	(61,468)	(3,848)

8. Credit Quality of Financial Assets

As at December 31, 2017 and 2016, financial assets exposed to credit risk are as follows:

(in millions of Korean won)	**2017**	**2016**
Neither past due nor impaired	680,700	766,527
Past due but not impaired	-	-
Impaired	197,516	185,853
	878,216	952,380

The Group classifies credit quality of financial assets depending on counterparty and nature. As at December 31, 2017 and 2016, details of the classified financial assets are as follows:

(in millions of Korean won)	**2017**	**2016**
Associates	7,826	23,679
Equity method investor	5,766	8,429
Financial institution	160,251	205,963
Trade receivables[1]	464,793	488,072
Investments in development projects	10,885	8,732
Loans for development projects	17,520	19,272
Employees and others	234	199
Others	13,425	11,816
	680,700	766,162

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

As at December 31, 2017, the Group has recognized provision and impairment losses for financial assets amounting to ₩133,959 million (2016: ₩113,670 million).

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 at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**Loans and receivables (trade receivables)**	
Type	**2017**	**2016**
Carrying amount of assets	253,298	262,751
Carrying amount of the associated liabilities[1]	252,377	261,927

[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 at December 31, 2017, the carrying amount of receivables which have not matured amounts to ₩39,325 million.

10. Restricted Financial Instruments

As at December 31, 2017 and 2016, restricted financial instruments are as follows:

(in millions of Korean won)	**2017**	**2016**	**Remarks**
Long-term financial instruments	19	19	Maintaining deposit for checking accounts

11. Cash and Cash Equivalents

As at December 31, 2017 and 2016, cash and cash equivalents are as follows:

(in millions of Korean won)	**2017**	**2016**
Cash in bank and on hand	76,391	84,508
Short-term bank deposits	81,923	109,078
	158,314	193,586

12. Trade Receivables

As at December 31, 2017 and 2016, trade receivables are as follows:

(in millions of Korean won)	**2017**	**2016**
Trade receivables	545,082	594,961
Less: provision for impairment	(28,844)	(31,358)
Trade receivables, net	516,238	563,603

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

As at December 31, 2017 and 2016, the aging analysis of trade receivables is as follows:

(in millions of Korean won)	**2017**	**2016**
Receivables not past due	465,618	491,514
Impaired		
Up to 1 year	40,900	20,673
Over 1 year	38,564	82,774
	79,464	103,447
	545,082	594,961

For the years ended December 31, 2017 and 2016, movements in the Group provision for impairment of trade receivables are as follows:

(in millions of Korean won)	**2017**	**2016**
At January 1	31,358	32,123
Reversal	(1,732)	(363)
Others	(555)	(556)
Effects of changes in foreign exchange rates	(227)	154
At December 31	28,844	31,358

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

13. Inventories

As at December 31, 2017 and 2016, inventories are as follows:

(in millions of Korean won)	**2017**	**2016**
Goods and others	229,079	281,720
Finished goods	863	925
Raw materials	9,465	4,321
Work in process	102	28
	239,509	286,994

The cost of inventories recognized as an expense and included in 'cost of sales' amounted to ₩4,032,725 million (2016: ₩3,310,901 million).

14. Other Assets and Other Current Receivables

As at December 31, 2017 and 2016, other assets are as follows:

(in millions of Korean won)	**2017**	**2016**
Beginning balance		
Advance payments	36,016	34,460
Carrying amount of assets	3,467	3,956
Carrying amount of the associated liabilities1	1,814	996
Ending balance	41,297	39,412
Leasehold deposits	3,267	3,319
Long-term prepaid expenses	26	18
Other non-current assets	3,293	3,337

As at December 31, 2017 and 2016, other current receivables are as follows:

(in millions of Korean won)	**2017**	**2016**
Other receivables	107,937	83,652
Less: provision for impairment	(82,424)	(70,185)
Accrued income	6,935	8,928
Guarantee deposits	428	515
Short-term loans	1,071	1,209
	33,947	24,119

The maximum exposure of other current receivables to credit risk at the reporting date is the carrying amount 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, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Beginning balance	90,517	88,371
Acquisitions	-	6,579
Impairment	(3,664)	-
Net losses reclassified to equity[1]	(20,825)	(4,662)
Effects of changes in foreign exchange rates and others	(11)	229
Ending balance	66,017	90,517

[1] The amount is before income tax effect.

As at December 31, 2017 and 2016, available-for-sale financial assets are as follows:

(in millions of Korean won)	2017			2016
Investee	**Acquisition cost**	**FMV or net asset value**	**Book amount**	**Book amount**
Non-marketable equity				
Korea Ras Laffan LNG Ltd. [1]	3,490	59,021	59,021	79,845
Drayton Coal Shipping Pty Limited [2]	239	239	239	250
SEGINIAGA(M) SDN. BHD. [2]	159	48	159	159
Hyundai Miraero Co., Ltd.[2]	6,579	7,857	6,579	6,579
Others[2]	24,581	1,641	19	20
Debt securities				
Others[3]	3,262	-	-	3,664
	38,310	68,806	66,017	90,517

[1] The Group recognized a gain of ₩55,531 million (2016: ₩76,355 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 profit or loss.
[3] During the year, the Group fully recognized impairment loss on debt securities.

16. Investments in Joint Ventures and Associates

As at December 31, 2017 and 2016, joint ventures and associates are as follows:

(in millions of Korean won)	Percentage of ownership(%) 2017	2016	Location	Date of financial statements	Description
PT HD INTI DEVE.	55.00	55.00	Indonesia	December 31	Management of facility
KOREA LNG LIMITED	20.00	20.00	Bermuda	December 31	OMAN LNG development
HYUNDAI YEMEN LNG COMPANY LIMITED[1,2]	51.00	51.00	Bermuda	December 31	Yemen LNG development
PT. HYUNDAI MACHINERY INDONESIA[3]	-	48.61	Indonesia	December 31	Manufacture and sale of heavy equipment
H&DE CO., LTD.	34.00	34.00	Korea	December 31	Auto parts production
INTERGIS BUSAN NEWPORT CENTER CO.,LTD.	20.00	-	Korea	December 31	Warehouse and Transportation Related Service

[1] The Group cannot exercise control due to agreement with investors, the above companies were excluded from subsidiaries.
[2] Although the percentage of ownership of the Group in the above equity securities is 51%, the equity method is applied considering the contractual terms regarding different dividends.
[3] During the year, the Group disposed of the shares of PT. HYUNDAI MACHINERY INDONESIA.

Details of valuation of investments in joint ventures and associates that are accounted for using the equity method for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017					
	Beginning balance	Acquisition	Share of other comprehensive income of associates and joint ventures	Share of profit or loss of associates and joint ventures	Others	Ending balance
PT HD INTI DEVE.	1,544	-	(174)	225	(461)	1,134
KOREA LNG LIMITED	55,098	-	(17,890)	6,496	(6,456)	37,248
HYUNDAI YEMEN LNG COMPANY LIMITED	154,525	-	(58,319)	(70)	-	96,136
H&DE CO., LTD.	3,389	-	-	(28)	-	3,361
INTERGIS BUSAN NEWPORT CENTER CO.,LTD.[1]	-	844	-	126	-	970
	214,556	844	(76,383)	6,749	(6,917)	138,849

[1] The Group acquired shares of INTERGIS BUSAN NEWPORT CENTER CO., LTD. during the year ended December 31, 2017.

(in millions of Korean won)	2016					
	Beginning balance	Acquisition	Share of other comprehensive income of associates and joint ventures	Share of profit or loss of associates and joint ventures	Others	Ending balance
PT HD INTI DEVE.	1,246	-	77	221	-	1,544
KOREA LNG LIMITED	59,038	-	(3,994)	6,396	(6,342)	55,098
HYUNDAI YEMEN LNG COMPANY LIMITED	210,174	-	(55,581)	(68)	-	154,525
QINGDAO HYUNDAI SHIPBUILDING CO., LTD.[1]	9,376	-	4	(3)	(9,377)	-
H&DE CO., LTD.	-	3,400	-	(11)	-	3,389
	279,834	3,400	(59,494)	6,535	(15,719)	214,556

[1] Reclassified as assets held for sale due to the equity transfer contract for the year ended December 31, 2016.

The tables below provide summarized financial information for those joint ventures and associates that are material to the Group and received dividends from the joint ventures and associates.

(in millions of Korean won)	2017					
	Assets	Liabilities	Sales and others	Profit or loss for the year	Total comprehensive income (loss)	Dividends
PT HD INTI DEVE.	2,566	504	4,417	417	102	461
KOREA LNG LIMITED	186,322	79	34,633	32,478	(56,971)	6,456
HYUNDAI YEMEN LNG COMPANY LIMITED	212,319	59,134	-	(138)	(149,805)	-
H&DE CO., LTD.	10,195	309	-	(81)	(81)	-
INTERGIS BUSAN NEWPORT CENTER CO.,LTD.	9,907	5,054	2,793	194	91	-

(in millions of Korean won)	2016					
	Assets	Liabilities	Sales and others	Profit or loss for the year	Total comprehensive income (loss)	Dividends
PT HD 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)	-
QINGDAO HYUNDAI SHIPBUILDING CO., LTD.	14,048	16,545	20,354	(25)	50	-
H&DE CO., LTD.	9,967	-	-	(33)	(33)	-

The tables below provide a reconciliation of the summarized financial information presented to the carrying amount of its interest in the joint ventures or associates.

(in millions of Korean won)	Interests in net assets	Others	Book amount
PT HD INTI DEVE.	1,134	-	1,134
KOREA LNG LIMITED	37,248	-	37,248
HYUNDAI YEMEN LNG COMPANY LIMITED	78,125	18,011	96,136
H&DE CO., LTD.	3,361	-	3,361
INTERGIS BUSAN NEWPORT CENTER CO.,LTD.	970	-	970

17. Investments in Exploration of Resources

As at December 31, 2017 and 2016, 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	2017	2016	Remarks
Vietnam (11-2prospect)	Mining rights	14,017	17,486	Commernced in 2007
Yemen LNG(HYLNG)[1]	Development projects	6,099	3,946	
	Investments in associates	96,136	154,525	Commernced in 2009
	Long-term loans	17,520	19,272	
West Kamchatka Prospect[2]	Development projects	4,786	4,786	Under liquidation
Oman LNG (KOLNG)	Investments in associates	37,248	55,098	Commernced in 2000
Qatar LNG(KORAS)	Available-for-sale financial assets	59,021	79,845	Commernced in 1999
Drayton Coal Mine and others	Available-for-sale financial assets	239	250	Commernced in 1983
	Mining rights	691	1,399	
Total	Mining rights	14,708	18,885	
	Development projects	10,885	8,732	
	Long-term loans	17,520	19,272	
	Investments in associates	133,384	209,623	
	Available-for-sale financial assets	59,260	80,095	

[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 at December 31, 2017, 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 at December 31, 2017 and 2016, the revenues from investments in resource exploration are as follows:

(in millions of Korean won)

Project name	Description	2017	2016
Beginning balance	Sales	6,484	7,956
Yemen LNG(HYLNG)	Share of loss of joint ventures and associates	(70)	(68)
Carrying amount of assets	Share of profit of joint ventures and associates	6,496	6,396
Carrying amount of the associate	Dividend income	8,259	2,795
Ending balance	Sales	-	2,417
Leasehold deposits		21,169	19,496

The percentages of ownership in investments in the exploration of resources as at December 31, 2017, are as follows:

(in percentage)

Project name	Consortium ownership in investments[1]	Percentage of ownership of the Company in consortium[2]
Vietnam (11-2prospect)	75.0%	6.5%
Yemen LNG(HYLNG)	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, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017			
	Buildings	Others	Construction-in-progress	Total
Opening net book amount	2,337	2,124	-	4,461
Acquisition / capital expenditures	29	216	125	370
Disposal	-	(10)	-	(10)
Depreciation[1]	(131)	(1,034)	-	(1,165)
Changes in foreign exchange rates and others	(139)	(83)	-	(222)
Closing net book amount	2,096	1,213	125	3,434
Acquisition cost	6,015	11,670	125	17,810
Accumulated depreciation	(2,080)	(10,457)	-	(12,537)
Accumulated impairment losses	(1,839)	-	-	(1,839)

(in millions of Korean won)	2016		
	Buildings	**Others**	**Total**
Opening net book amount	2,434	2,822	5,256
Acquisition / capital expenditures	14	328	342
Disposal	-	(16)	(16)
Depreciation[1]	(130)	(1,036)	(1,166)
Changes in consolidation scope	19	26	45
Closing net book amount	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)

[1]Depreciation expense of ₩ 155 million (2016: ₩153 million) was charged to 'cost of sales' and ₩1,010 million (2016: ₩1,013 million) to 'selling and administrative expenses.

19. Intangible Assets

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017		
	Mining rights	**Others**	**Total**
Beginning balance	18,885	10,445	29,330
Acquisition / capital expenditures	35	857	892
Amortization[1]	(1,776)	(249)	(2,025)
Disposal	-	(1,733)	(1,733)
Impairment	(2,401)	-	(2,401)
Changes in foreign exchange rates	(35)	(70)	(105)
Ending balance	14,708	9,250	23,958

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

[1]Amortization of mining rights and other intangible assets is classified as cost of sales, and selling and administrative expenses, respectively, for the year ended December 31, 2017.

Details of other intangible assets as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Membership rights	8,577	9,607
Others	673	838
	9,250	10,445

20. Other Current Liabilities

As at December 31, 2017 and 2016, other current liabilities are as follows:

(in millions of Korean won)	**2017**	**2016**
Deposits	2,121	3,043
Guarantee deposits	165	128
Accrued expenses	2,074	1,785
Other current liabilities	41	57
	4,401	5,013

21. Long- term and Short-term Borrowings

As at December 31, 2017 and 2016, long-term and short-term borrowings are as follows:

(in millions of Korean won)

Type	Purpose	Creditor	Interest rate(%)	2017	2016
Foreign currency short-term borrowings	D/A NEGO[1]	WOORI BANK and others	-	253,298	262,751
	USANCE	The Korea Development Bank and others	0.27~2.90	83,829	159,750
	Operational borrowings	Shinhan Bank	1.02	64	349
				337,191	422,850
Foreign currency long-term borrowings	Investments in petroleum development projects	Korea Energy Agency and others	-	4,786	6,888
	Financial investments in overseas	CREDIT-AGRICOLE and others	-	-	1,172
				4,786	8,060
		Less: Current portion of long-term borrowings		-	(3,274)
				4,786	4,786

[1] Trade receivables are pledged as collateral (Note 9).

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

22. Net Defined Benefit Liability

Details of net defined benefit liabilities recognized in the consolidated statements of financial position as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Present value of funded obligations	19,313	16,718
Fair value of plan assets[1]	(17,613)	(14,913)
Net defined benefit liabilities	1,700	1,805
Present value of other long-term employee benefits obligations	175	144
	1,875	1,949

[1] Includes deposits to the National Pension Fund of ₩26 million (2016: ₩33 million) as at December 31, 2017.

Changes in the carrying amount of defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Beginning balance	16,718	15,914
Current service cost	2,337	2,267
Interest expense	268	272
Remeasurements	2,236	1,142
Actuarial gains from change in demographic assumptions	-	(189)
Actuarial gains and losses from change in financial assumptions	(293)	107
Actuarial losses from experience adjustments	2,529	1,224
Transfer from and to related companies	-	(57)
Benefits paid	(2,205)	(2,847)
Changes in foreign exchange rates	(41)	27
Ending balance	19,313	16,718

Expected maturity analysis of undiscounted pension benefits as at December 31, 2017, is as follows:

(in millions of Korean won)	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Between 5 and 10 years**	**Over 10 years**	**Total**
Pension benefits	1,474	1,511	4,618	7,265	16,332	31,200

The weighted average duration of the defined benefit obligations is 6.61 years.

Changes in the fair value of plan assets for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Beginning balance	14,913	14,428
Interest income	306	292
Remeasurements	(89)	(80)
Employer contribution	4,400	3,000
Benefits paid	(1,917)	(2,767)
Transfer from and to related companies	-	40
Ending balance	17,613	14,913

The significant actuarial assumptions as at December 31, 2017 and 2016, were as follows:

(in percentage)	**2017**	**2016**
Discount rate	2.88	2.49
Future salary growth	3.87	3.87

The sensitivity of the overall pension liability as at December 31, 2017, to changes in the weighted principal assumptions is:

	Changes in principal assumption	**Impact on overall liability**
Discount rate	1% increase / decrease	3.68% decrease/ 4.15% increase
Future salary growth rate	1% increase / decrease	4.07% increase/ 3.69% 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 statement of financial position.

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

Plan assets as at December 31, 2017 and 2016, consist of:

(in millions of Korean won)	**2017**		**2016**	
	Amount	**Composition (%)**	**Amount**	**Composition (%)**
Contributions to the National Pension	26	0.1	33	0.2
Financial Instruments	17,587	99.9	14,880	99.8
	17,613	100.0	14,913	100.0

23. Provisions

Details and changes of provisions for liabilities and charges for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Warranty	**Restoration[1]**	**Others**	**Total**
Beginning balance	18	3,038	2,982	6,038
Addition	-	127	151	278
Reversal	-	(327)	(561)	(888)
Other changes	(2)	(374)	(126)	(502)
Ending balance	16	2,464	2,446	4,926
Less: current	(16)	-	-	(16)
Non-current	-	2,464	2,446	4,910

(in millions of Korean won)	2016			
	Warranty	**Restoration[1]**	**Others**	**Total**
Beginning balance	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
Ending balance	18	3,038	2,982	6,038
Less: current	(18)	-	-	(18)
Non-current	-	3,038	2,982	6,020

[1] The carrying amount of restoration as at December 31, 2017, is netted against the restoration reserve of ₩1,944 million (2016: ₩1,798 million).

24. Tax Expense and Deferred Tax

Income tax expense (benefit) for the years ended December 31, 2017 and 2016, consists of:

(in millions of Korean won)	**2017**	**2016**
Current tax on profits for the year	6,481	22,540
Refund of reassessment claim	(24,752)	-
Origination and reversal of temporary differences	3,162	(9,256)
Income tax expense (benefit)	(15,109)	13,284

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

(in millions of Korean won)	**2017**	**2016**
Profit before income tax expense	10,034	21,351
Tax at domestic tax rates applicable to profits in the respective countries	9,525	8,139
Tax effects of:		
Income not subject to tax/ Expenses not deductible for tax purposes	(226)	474
Impact of tax credit	20	(85)
Refund of reassessment claim	(24,752)	-
Others	324	4,756
Income tax expense (benefit)	(15,109)	13,284

The income tax relating to items that are charged on credited directly to equity for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)		**2017**	
	Before tax	**Tax effect**	**After tax**
Changes in the fair value of available-for-sale financial assets	(20,825)	5,040	(15,785)
Share of other comprehensive loss of joint ventures and associates	(76,636)	18,443	(58,193)
Gain (loss) on valuation of derivatives	(2,443)	592	(1,851)
Foreign operation currency translation differences	(8,072)	1,590	(6,482)
Remeasurement of net defined benefit liability	(2,325)	563	(1,762)

(in millions of Korean won)		**2016**	
	Before tax	**Tax effect**	**After tax**
Changes in the fair value of available-for-sale financial assets	(4,662)	1,128	(3,534)
Share of other comprehensive loss of joint ventures and associates	(59,494)	14,417	(45,077)
Gain (loss) on valuation of derivatives	(414)	100	(314)
Foreign operation currency translation differences	2,304	(470)	1,834
Remeasurement of net defined benefit liability	(1,222)	296	(926)

As at December 31, 2017 and 2016, the analyses of deferred tax assets and deferred tax liabilities are as follows:

(in millions of Korean won)	**2017**	**2016**
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	16,614	21,470
Deferred tax asset to be recovered within 12 months	5,096	880
	21,710	22,350
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(57,004)	(79,432)
Deferred tax liability to be recovered within 12 months	(6)	(1,284)
	(57,010)	(80,716)
Deferred tax assets (liabilities), net	(35,300)	(58,366)

Changes in the deferred assets and liabilities for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	2017			
	Beginning balance	Statement of profit or loss	Other comprehensive income	Ending balance
Available-for-sale financial assets	(5,389)	(7,445)	5,040	(7,794)
Investments in subsidiaries, joint ventures and associates	(56,656)	(1,789)	20,033	(38,412)
Intangible assets	91	(36)	-	55
Provision for impairment	3,555	2,512	-	6,067
Gain (loss) on foreign currency translation	(200)	(122)	-	(322)
Provisions	774	(152)	-	622
Net defined benefit liabilities	38	(741)	563	(140)
Tax losses carryforwards	-	3,513	-	3,513
Others	(579)	1,098	592	1,111
	(58,366)	(3,162)	26,228	(35,300)

(in millions of Korean won)	2016			
	Beginning balance	Statement of profit or loss	Other comprehensive income	Ending balance
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
Provision for impairment	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)

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 ₩ 69,511 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 at December 31, 2017 and 2016, accumulated other comprehensive income and other components of equity are as follows:

(in millions of Korean won)

Other components of equity	**2017**	**2016**
Treasury shares	(12,078)	(7,310)
Adjustment on other components of equity	(18,865)	(18,865)
Loss from spin-off[1]	(242,051)	(242,051)
	(272,994)	(268,226)
Accumulated other comprehensive income		
Changes in the fair value of available-for-sale financial assets	42,092	57,877
Share of other comprehensive income of joint ventures and associates	98,409	156,602
Gain (loss) on valuation of derivatives	(2,165)	(314)
Foreign operation currency translation differences	(12,642)	(6,221)
	125,694	207,944

[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, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Beginning balance	207,944	255,045
Other increase/decrease	(82,250)	(47,101)
Ending balance	125,694	207,944

26. Retained Earnings

As at December 31, 2017 and 2016, retained earnings consist of:

(in millions of Korean won)	**2017**	**2016**
Legal reserve[1]	6,660	6,016
Retained earnings before appropriation	436,270	420,145
	442,930	426,161

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

The dividends paid in 2017 and 2016 were ₩6,447 million (₩500 per share) and ₩9,918 million (₩750 per share), respectively. A dividend in respect of the year ended December 31, 2017, of ₩600 per share, amounting to total dividends of ₩7,595 million, is to be proposed at the annual general meeting on March 23, 2018. These financial statements do not reflect this dividend payable.

27. Sales and Cost of sales

Sales for the years ended December 31, 2017 and 2016, consist of:

(in millions of Korean won)	**2017**	**2016**
Sales		
Sales	4,258,978	3,518,495
Commisions	40,493	29,899
Resource development	6,484	10,373
	4,305,955	3,558,767

Cost of sales for the years ended December 31, 2017 and 2016, consist of:

(in millions of Korean won)	**2017**	**2016**
Cost of sales		
Cost of sales	4,170,161	3,424,924
Cost of commisions	20,391	14,785
Cost of resource development	5,469	12,424
	4,196,021	3,452,133

28. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Wages and salaries	36,702	34,886
Post-employment benefits	1,989	2,181
Employee benefits	4,366	3,961
Travel expense	3,860	3,700
Taxes and dues	1,179	1,197
Entertainment expense	1,756	1,695
Overseas branches expense	10,415	10,398
Rental expenses	3,286	3,402
Service fees	6,110	6,165
Computer system expense	1,602	1,730
Depreciation	1,010	1,013
Amortization	249	625
Reversal of provision for impairment	(1,732)	(248)
Others	5,156	5,447
	75,948	76,152

29. Expenses by Nature

Expenses by nature included in the cost of sales, selling and administrative expenses, and other expenses in the consolidated statement of profit or loss for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Changes in inventories	4,032,725	3,310,901
Wages and salaries	38,691	37,356
Employee benefits	4,366	3,961
Depreciation	1,165	1,166
Amortization	2,025	7,398
Others	192,996	167,503
Total[1]	4,271,968	3,528,285

[1]The total equals to the sum of cost of sales, selling and administration expenses in the consolidated statements of profit or loss.

30. Other non-operating Income and Expenses

Other non-operating income for the years ended December 31, 2017 and 2016, is as follows:

(in millions of Korean won)	**2017**	**2016**
Gain on foreign currency assets and liabilities	49,455	72,883
Dividend income	8,348	2,890
Gain on derivatives	7,321	12,208
Gain on exemption of debt	-	48,638
Others	2,799	4,723
	67,923	141,342

Other non-operating expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**	**2016**
Gain on foreign currency assets and liabilities	49,455	72,883
Dividend income	8,348	2,890
Gain on derivatives	7,321	12,208
Gain on exemption of debt	-	48,638
Others	2,799	4,723
	67,923	141,342

31. Finance Income and Costs

Finance income for the years ended December 31, 2017 and 2016, consists of:

(in millions of Korean won)	**2017**	**2016**
Gain on foreign currency assets and liabilities	31,156	37,276
Interest income	3,902	3,772
	35,058	41,048

Finance costs for the years ended December 31, 2017 and 2016, consist of:

(in millions of Korean won)	**2017**	**2016**
Loss on foreign currency assets and liabilities	23,425	44,076
Interest expense	7,253	7,223
	30,678	51,299

32. Earnings per Share

Earnings per share for the years ended December 31, 2017 and 2016, is computed as follows:

(in Korean won)	**2017**	**2016**
Profit attributable to the ordinary equity holders of the Parent Company	24,978,598,358	7,958,542,935
Weighted average number of ordinary shares outstanding *(in shares)*	12,677,625	13,181,949
Basic earnings per share	1,970	604

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

Weighted average number of ordinary shares outstanding for the years ended December 31, 2017 and 2016, is computed as follows:

(in shares)	**2017**	**2016**
Ordinary shares outstanding at the beginning of the year	13,228,966	13,228,966
Purchase of treasury shares	(551,341)	(47,017)
Weighted average number of ordinary shares outstanding	12,677,625	13,181,949

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)	**2017**	**2016**
Profit before income tax	25,143	8,067
Adjustment		
Interest income	(3,902)	(3,772)
Interest expense	7,253	7,223
Dividend income	(8,348)	(2,890)
Income tax expense (benefit)	(15,109)	13,284
Depreciation	1,165	1,166
Amortization	2,025	7,398
Post-employment benefits	2,003	2,247
Reversal of provision for impairment	(1,732)	(248)
Loss on disposal of trade receivables	3,144	2,348
Share of profit of associates	(6,749)	(6,535)
Gain on valuation of derivatives	(1,136)	579
Gain on foreign currency translation	11,882	(916)
Other impairment loss	22,828	64,582
Gain on exemption of debt	-	(48,638)
Others	5,751	(496)
	19,075	35,332
Changes in operating assets and liabilities		
Trade receivables	(12,781)	(33,535)
Inventories	33,714	58,217
Other current receivables	219	595
Other current assets	(4,774)	5,947
Other non-current assets	51	(44)
Trade payables	(14,149)	16,420
Other payables	(3,482)	(23,414)
Advances from customers	(10,057)	544
Other assets and liabilities	(5,943)	(5,641)
	(17,202)	19,089
Cash generated from operations	27,016	62,488

Significant transactions not affecting cash flows are as follows:

(in millions of Korean won)	**2017**	**2016**
Reclassification of current portion of long-term borrowings	-	3,274

34. Commitments and Contingencies

As at December 31, 2017, the Group provided notes and checks, including nine blank notes as collaterals for the Group’s various borrowings and guarantees of indebtedness.

As at December 31, 2017, the Group has filed three lawsuits claiming US$ 5,695 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.

Hyundai Corporation Holdings Co., Ltd., a related party, has been involoved in a lawsuit as a defendant in the Brazil court related to the product supply contract claiming BRL 11,930 thousand. In connection with the lawsuit, the Group provides joint guarantees.

Commitments for trade financial transactions with Korea Exchange Bank and others as at December 31, 2017, are as follows:

(in thousands of US dollars)	**Maximum amount[1]**	**Used amount**
D/A, D/P[2]	383,071	444,878
L/C and others	712,603	432,816
Bonds and others	198,629	67,972
	1,294,303	945,666

[1] Maximum amount including comprehensive limit.
[2] Includes USD 36,704 thousand used for disposal of D/A, D/P trade receivables without recourse.

The Group received a refund of ₩ 43,588 million through an appeal and others during the year.

35. Derivatives

Details of the changes in valuation gain or loss on derivatives for years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)	**2017**		**2016**	
	Gain	**Loss**	**Gain**	**Loss**
Foreign currency forward	1,441	303	1,248	1,828
Commodity futures	-	2	396	825
	1,441	305	1,644	2,653

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 and others. These agreements were classified as trading instruments and related derivatives assets and liabilities amount to ₩1,474 million and ₩ 467 million, respectively.

Details of foreign currency forward contracts that are not past due as at December 31, 2017, are as follows:

(in USD, EUR and JPY)

Position	**Contract amounts**	
USD Selling	USD	13,209,086
USD Buying	USD	3,185,879
EUR Selling	EUR	33,793,727
EUR Buying	EUR	5,384,905
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 ₩ 362 million and ₩ 2,987 million, and firm contract 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 outstanding balances as at December 31, 2017 and 2016, are as follows:

	2017	2016
Entities with significant influence over the Company	Hyundai Corporation Holdings Co., Ltd.	Hyundai Corporation Holdings Co., Ltd.
Joint venture and associates	KOREA LNG LIMITED	KOREA LNG LIMITED
	HYUNDAI YEMEN LNG COMPANY LIMITED	HYUNDAI YEMEN LNG COMPANY LIMITED
	PT HD INTI. DEVE	PT HD INTI. DEVE
	-	PT. HYUNDAI MACHINERY INDONESIA
Other related parties	TM Shipping, HYUNDAI C SQUARE CO., LTD.	TM Shipping

Significant transactions with related parties for years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

		2017		2016	
		Sales and others[1]	Purchase and others[2]	Sales and others[1]	Purchase and others[2]
Entities with significant influence over the Company	Hyundai Corporation Holdings Co., Ltd.	2,131	2,299	3,406	2,283
Joint venture and associates	HYUNDAI YEMEN LNG COMPANY LIMITED	462	-	369	-
Other related parties	TM Shipping	1,796	-	3,579	-
	Others	11	-	-	-
	Total	4,400	2,299	7,354	2,283

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

Significant receivables and payables with related parties as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

		2017		2016	
		Receivables and others[1]	Payables and others[2]	Receivables and others[1]	Payables and others[2]
Entities with significant influence over the Company	Hyundai Corporation Holdings Co., Ltd.	5,719	1,869	7,386	1,869
Joint venture and associates	PT. HYUNDAI MACHINERY INDONESIA	-	-	1,215	-
	KOREA LNG LIMITED	793	-	-	-
	HYUNDAI YEMEN LNG COMPANY LIMITED	13,100	-	11,330	-
Other related parties	TM Shipping	-	-	2,904	-
	Total	19,612	1,869	22,835	1,869

[1] The amounts include trade receivables, other current receivables and other current assets.
[2] The amounts include trade payables, other payables, advances from customers, other current liabilities and others.

Fund transactions with related parties for years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)		2017						
		Beginning balance	Loans	Repayment	Foreign currency translation	Ending balance	Receipt of dividends	Provision of dividends
HYUNDAI YEMEN LNG COMPANY LIMITED	Long-term loans	19,273	463	-	(2,216)	17,520	-	-
TM Shipping	Long-term loans	25,649	191	(1,914)	(1,278)	22,648	-	-
KOREA LNG LIMITED	-	-	-	-	-	-	6,456	-
PT HD INTI. DEVE	-	-	-	-	-	-	461	-
Hyundai Corporation Holdings Co., Ltd.	-	-	-	-	-	-	-	1,281
		44,922	654	(1,914)	(3,494)	40,168	6,917	1,281

(in millions of Korean won)		2016						
		Beginning balance	Loans	Repayment	Foreign currency translation	Ending balance	Receipt of dividends	Provision of dividends
HYUNDAI YEMEN LNG COMPANY LIMITED	Long-term loans	17,576	1,096	-	601	19,273	-	-
TM Shipping	(Current portion of) Long-term loans	25,243	2,267	(2,641)	780	25,649	-	-
KOREA LNG LIMITED	-	-	-	-	-	-	6,342	-
Hyundai Corporation Holdings Co., Ltd.	-	-	-	-	-	-	-	1,922
		42,819	3,363	(2,641)	1,381	44,922	6,342	1,922

Provision for impairment were made for loans of ₩22,648 million to TM shipping. And available-for-sale financial assets and others amounting to ₩4,003 million were impaired.

The Group provides joint guarantees for the related party, Hyundai Corporation Holdings Co., Ltd, in relation to lawsuit (Note 34).

The compensation paid or payable to key management for the years ended December 31, 2017 and 2016, consists of:

(in millions of Korean won)	**2017**	**2016**
Wages and salaries	3,518	2,221
Post-employment benefits	586	518
	4,104	2,739

37. 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: ₩1,071.4, the exchange rate in effect on December 31, 2017. 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.