

CREATIVITY  
INSPIRED  
HYOSUNG

2016 Financial Statements

HYOSUNG



# Independent Auditor's Report

## **To the Board of Directors and Shareholders of Hyosung Corporation**

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

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

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

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

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

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

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

### ***Opinion***

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

### ***Emphasis Matters***

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

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

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

# Independent Auditor's Report

## A. General Information

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

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

## B. Revenue recognition based on the input method

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

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

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

following audit procedures.

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

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

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

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

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

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

## D. Measurement of percentage of completion

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

As at December 31, 2016, in respect of the Company's estimated total contract costs and aggregated cost incurred that have im-

pacts on the measurement of percentage of completion, we have performed the following audit procedures.

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

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

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

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

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

#### **Other Matter**

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

**Seoul, Korea**

**March 9, 2017**

**Samil PricewaterhouseCoopers**

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

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

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

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

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

This report is effective as of March 9, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

※ You can find the notes from Audit Report on HYOSUNG website (<http://www.hyosung.com>).

# Hyosung Corporation

## Separate Statements of Financial Position

December 31, 2016 and 2015  
(in millions of Korean won)

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

Hyosung Corporation  
**Separate Statements of Profit or Loss**

Years Ended December 31, 2016 and 2015  
 (in millions of Korean won, except per share amounts)

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

# Separate Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015  
(in millions of Korean won)

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

Hyosung Corporation

## Separate Statements of Changes in Equity

Years Ended December 31, 2016 and 2015  
(in millions of Korean won)

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

# Hyosung Corporation

## Separate Statements of Cash Flows

Years Ended December 31, 2016 and 2015  
(in millions of Korean won)

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

# Independent Auditor's Report

## **To the Board of Directors and Shareholders of Hyosung Corporation**

We have audited the accompanying consolidated financial statements of Hyosung Corporation and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, 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 the International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

### ***Opinion***

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

### ***Emphasis Matters***

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

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

# Independent Auditor's Report

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

## A. General Information

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

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

## B. Revenue recognition based on the input method

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

The Group determined that unexpected increase of estimated total contract costs will result from the progress of certain overseas projects included in Heavy industrial segment. As explained in Note 29 to the consolidated financial statements (Construction Contracts), for the year ended December 31, 2016, the changes in estimated total contract revenue and cost amount to ₩ 4,544 million and ₩ 2,988 million respectively in the Heavy industrial segment. Due to these changes, the profit or loss for the current period has decreased by ₩ 3,149 million, and the profit or loss for the succeeding year is estimated to increase by ₩ 4,705 million. The changes in estimated total contract revenue and costs may have negative impacts on the profit or loss for the current period (or for the succeeding year); therefore, we identified revenue recognition based on the input method as a significant risk.

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

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

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

As explained in the Note 3 to the consolidated financial statements (Critical Accounting Estimates and Assumptions) and in the Note 29 to the consolidated financial statements (Construction Contracts), total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others. When the estimated total contract costs increases by 5%, profit before income tax and net assets before income tax effects would decrease by ₩ 139,675 million.

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

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

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

## D. Measurement of percentage of completion

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

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

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

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

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

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

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

#### **Other Matter**

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

**Seoul, Korea**

**March 9, 2017**

**Samil PricewaterhouseCoopers**

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

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

As explained in the Note 29 to the consolidated financial statements (Construction Contracts), changes in total contract revenue have occurred and while the total contract price is increased due to changes in specifications, estimated construction costs may not be timely updated. Accordingly there are risk of misstatements in contract revenue; therefore, we identified accounting treatment regarding variations in contract work as a significant risk.

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

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

This report is effective as of March 9, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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.

※ You can find the notes from Audit Report on HYOSUNG website (<http://www.hyosung.com>).

## Consolidated Statements of Financial Position

December 31, 2016 and 2015  
(in millions of Korean won)

	2016	2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	431,707	513,262
Trade and other receivables	1,736,071	1,859,542
Due from customers for contract work	116,982	93,748
Other financial assets	50,326	70,232
Other current assets	169,152	166,344
Inventories	1,524,770	1,498,284
Current tax assets	19,438	15,755
	<b>4,048,446</b>	<b>4,217,167</b>
<b>Non-current assets</b>		
Long-term trade and other receivables	305,046	278,457
Property, plant and equipment	5,845,022	5,628,843
Investment property	628,823	620,004
Intangible assets	420,070	452,656
Investments in associates	115,373	110,941
Other financial business assets	2,091,145	2,058,256
Other non-current financial assets	552,834	549,803
Other non-current assets	62,766	54,126
Deferred tax assets	51,276	42,925
	<b>10,072,355</b>	<b>9,796,011</b>
<b>Total assets</b>	<b>14,120,801</b>	<b>14,013,178</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	1,786,517	1,491,379
Due to customers for contract work	98,278	108,120
Borrowings	4,380,424	4,722,373
Other financial liabilities	29,504	24,815
Current tax liabilities	150,204	42,104
Other current liabilities	438,150	329,520
	<b>6,883,077</b>	<b>6,718,311</b>
<b>Non-current liabilities</b>		
Long-term trade and other payables	376,166	367,690
Long-term borrowings	2,662,171	3,055,933
Post-employment benefit obligation	43,499	35,566
Deferred tax liabilities	234,631	252,121
Other non-current financial liabilities	7,226	8,184
Other non-current liabilities	72,815	103,260
	<b>3,396,508</b>	<b>3,822,754</b>
<b>Total liabilities</b>	<b>10,279,585</b>	<b>10,541,065</b>
<b>Equity</b>		
<b>Equity attributable to owners of the Parent Company</b>		
Share capital	175,587	175,587
Share premium	130,826	130,826
Retained earnings	2,996,260	2,660,446
Other components of equity	316,536	291,399
	<b>3,619,209</b>	<b>3,258,258</b>
<b>Non-controlling interest</b>	<b>222,007</b>	<b>213,855</b>
<b>Total equity</b>	<b>3,841,216</b>	<b>3,472,113</b>
<b>Total liabilities and equity</b>	<b>14,120,801</b>	<b>14,013,178</b>

Hyosung Corporation and Subsidiaries

## Consolidated Statements of Profit or Loss

Years Ended December 31, 2016 and 2015  
(in millions of Korean won, except per share amounts)

	2016	2015
<b>Revenue</b>	<b>11,929,113</b>	<b>12,458,454</b>
<b>Cost of sales</b>	<b>(9,770,994)</b>	<b>(10,429,796)</b>
<b>Gross profit</b>	<b>2,158,119</b>	<b>2,028,658</b>
Selling and administrative expenses	(1,025,169)	(957,004)
Research and development expenses	(116,604)	(121,485)
<b>Operating profit</b>	<b>1,016,346</b>	<b>950,169</b>
Other income	66,276	89,692
Other expenses	(185,300)	(128,515)
Other income (expenses), net	(119,024)	(38,823)
Finance income	450,963	395,875
Finance expenses	(680,086)	(721,382)
Finance income (expenses), net	(229,123)	(325,507)
Profit of associates accounted for using the equity method, net	28,315	11,451
Profit before income tax	696,514	597,290
Income tax expense	(221,112)	(71,399)
<b>Profit for the period</b>	<b>475,402</b>	<b>525,891</b>
<b>Profit is attributable to:</b>		
Owners of the Parent Company	455,526	492,691
Non-controlling interests	19,876	33,200
	<b>475,402</b>	<b>525,891</b>
<b>Earnings per share</b>		
attributable to the equity holders of the Parent Company		
<b>Basic earnings per share</b>	<b>13,692</b>	<b>14,809</b>

# Consolidated Statements of Comprehensive Income

Years Ended December 31, 2016 and 2015  
(in millions of Korean won)

	2016	2015
<b>Profit for the period</b>	<b>475,402</b>	<b>525,891</b>
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurements of net defined benefit liability	(2,814)	(19,089)
Share of remeasurements of net defined benefit liabilities of associates	(295)	(880)
<b>Items that may be subsequently reclassified to profit or loss</b>		
Change in the fair value of available-for-sale financial assets	15,360	38,603
Share of other comprehensive income of associates	(111)	8,401
Exchange differences	19,170	13,372
<b>Other comprehensive income for the period, net of tax</b>	<b>31,310</b>	<b>40,407</b>
<b>Total comprehensive income for the period</b>	<b>506,712</b>	<b>566,298</b>
<b>Total comprehensive income for the period is attributable to:</b>		
Owners of the Parent Company	483,932	533,412
Non-controlling interest	22,780	32,886
	<b>506,712</b>	<b>566,298</b>

Hyosung Corporation and subsidiaries

## Consolidated Statements of Changes in Equity

Years Ended December 31, 2016 and 2015  
(in millions of Korean won)

	Attributable to owners of the Parent Company					Non-controlling Interest	Total Equity
	Share capital	Share premium	Retained Earnings	Other Components of Equity	Total		
<b>Balance at January 1, 2015</b>	<b>175,587</b>	<b>130,826</b>	<b>2,256,086</b>	<b>229,539</b>	<b>2,792,039</b>	<b>103,230</b>	<b>2,895,268</b>
<b>Total comprehensive income</b>							
Profit for the period	-	-	492,691	-	492,691	33,200	525,891
Remeasurements of net defined benefit liability	-	-	(18,185)	-	(18,185)	(904)	(19,089)
Share of remeasurements of net defined benefit liabilities of associates	-	-	(880)	-	(880)	-	(880)
Change in value of available-for-sale financial assets	-	-	-	38,617	38,617	(14)	38,603
Share of other comprehensive income of associates	-	-	-	8,401	8,401	-	8,401
Exchange differences	-	-	-	12,769	12,769	603	13,372
<b>Transactions with owners</b>							
Dividends paid	-	-	(66,537)	-	(66,537)	(10,597)	(77,134)
Changes in other additional capital	-	-	(1,028)	2,434	1,406	-	1,406
Others	-	-	(1,701)	(361)	(2,063)	(576)	(2,638)
Changes in scope of consolidation	-	-	-	-	-	88,913	88,913
<b>Balance at December 31, 2015</b>	<b>175,587</b>	<b>130,826</b>	<b>2,660,446</b>	<b>291,399</b>	<b>3,258,258</b>	<b>213,855</b>	<b>3,472,113</b>
<b>Balance at January 1, 2016</b>	<b>175,587</b>	<b>130,826</b>	<b>2,660,446</b>	<b>291,399</b>	<b>3,258,258</b>	<b>213,855</b>	<b>3,472,113</b>
<b>Total comprehensive income</b>							
Profit for the period	-	-	455,526	-	455,526	19,876	475,402
Remeasurements of net defined benefit liability	-	-	(1,618)	-	(1,618)	(1,196)	(2,814)
Share of remeasurements of net defined benefit liabilities of associates	-	-	(295)	-	(295)	-	(295)
Change in value of available-for-sale financial assets	-	-	-	14,401	14,401	959	15,360
Share of other comprehensive income of associates	-	-	-	(111)	(111)	-	(111)
Exchange differences	-	-	-	16,029	16,029	3,141	19,170
<b>Transactions with owners</b>							
Dividends paid	-	-	(116,440)	-	(116,440)	(18,480)	(134,920)
Changes in other additional capital	-	-	-	(27)	(27)	-	(27)
Others	-	-	(1,359)	313	(1,046)	-	(1,046)
Changes in ownership interest in subsidiaries and others	-	-	-	(5,468)	(5,468)	3,852	(1,616)
<b>Balance at December 31, 2016</b>	<b>175,587</b>	<b>130,826</b>	<b>2,996,260</b>	<b>316,536</b>	<b>3,619,209</b>	<b>222,007</b>	<b>3,841,216</b>

## Consolidated Statements of Cash Flows

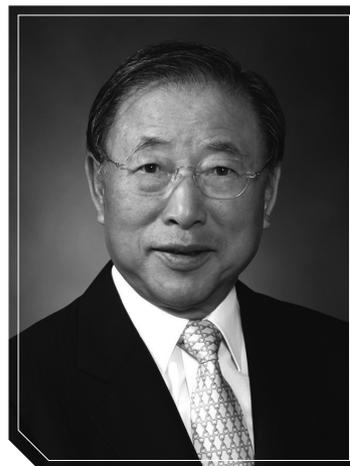
Years Ended December 31, 2016 and 2015  
(in millions of Korean won)

	2016	2015
<b>Cash flows from operating activities</b>		
Cash generated from operations	1,993,923	1,532,899
Income taxes paid	(142,842)	(165,813)
Interest paid	(191,771)	(200,508)
Interest received	141,127	164,437
Dividends received	12,501	3,040
<b>Net cash inflow from operating activities</b>	<b>1,812,938</b>	<b>1,334,055</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of other receivables	54,966	86,814
Proceeds from sale of other financial assets	130,927	91,888
Proceeds from sale of long-term other receivables	155,892	28,359
Proceeds from sale of property, plant and equipment	48,730	45,161
Government grants received	1,269	20,447
Proceeds from sale of investment property	5,416	20,278
Proceeds from sale of intangible assets	7,471	2,317
Proceeds from sale of investments in associates	2,958	5,717
Proceed from cease of control on subsidiaries, net of cash owned	-	55,551
Proceed from acquisition of subsidiaries, net of cash owned	-	16,027
Proceeds from sale of other non-current assets	9	26,086
Acquisition of other receivables	(96,317)	(121,338)
Acquisition of other financial assets	(102,172)	(52,968)
Acquisition of long-term other receivables	(52,253)	(48,564)
Acquisition of other non-current financial assets	(115,295)	(148,128)
Payments for property, plant and equipment	(903,271)	(702,244)
Payments for investment properties	(4,326)	(9)
Payments for intangible assets	(33,287)	(28,331)
Acquisition of investments in associates	(8,750)	(3,920)
Acquisition of other non-current assets	(300)	(296)
<b>Net cash outflow from investing activities</b>	<b>(908,333)</b>	<b>(707,153)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings	11,927,716	10,406,185
Proceeds from long-term borrowings and issuance of debentures	2,394,653	3,352,788
Government grants received	2,598	3,520
Repayment of short-term borrowings	(12,647,162)	(10,868,266)
Repayment of long-term borrowings and debentures	(2,540,099)	(3,451,274)
Dividends paid	(134,920)	(87,780)
Repayment of government grants	(1,134)	(11,632)
Repayment of deposit received	(739)	-
<b>Net cash outflow from financing activities</b>	<b>(999,087)</b>	<b>(656,459)</b>
Effects of exchange rate changes on cash and cash equivalents	12,927	15,899
<b>Net decrease in cash and cash equivalents</b>	<b>(81,555)</b>	<b>(13,658)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>513,262</b>	<b>526,920</b>
<b>Cash and cash equivalents at the end of the year in the consolidated statements of financial position</b>	<b>431,707</b>	<b>513,262</b>

Board of Directors

Corporate Management

# Board of directors



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Chairman



**Hyun-Joon Cho**  
Chairman



**Kyoo-Young Kim**  
CTO, Industrial Materials PG



**H.S. Cho**  
President, Corporate Strategy Center  
President, Industrial Materials PG  
Chemicals PG CMO



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Attorneys-at-Law,  
Kim Sang Hee Law Office  
Former Vice-Minister,  
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Former Chairman of the board,  
the Korea Institute of Patent Information



**Tae-Ho Park**  
Professor, International Studies Seoul  
National University  
Former Trade Minister, the Ministry of  
Foreign Affairs and Trade



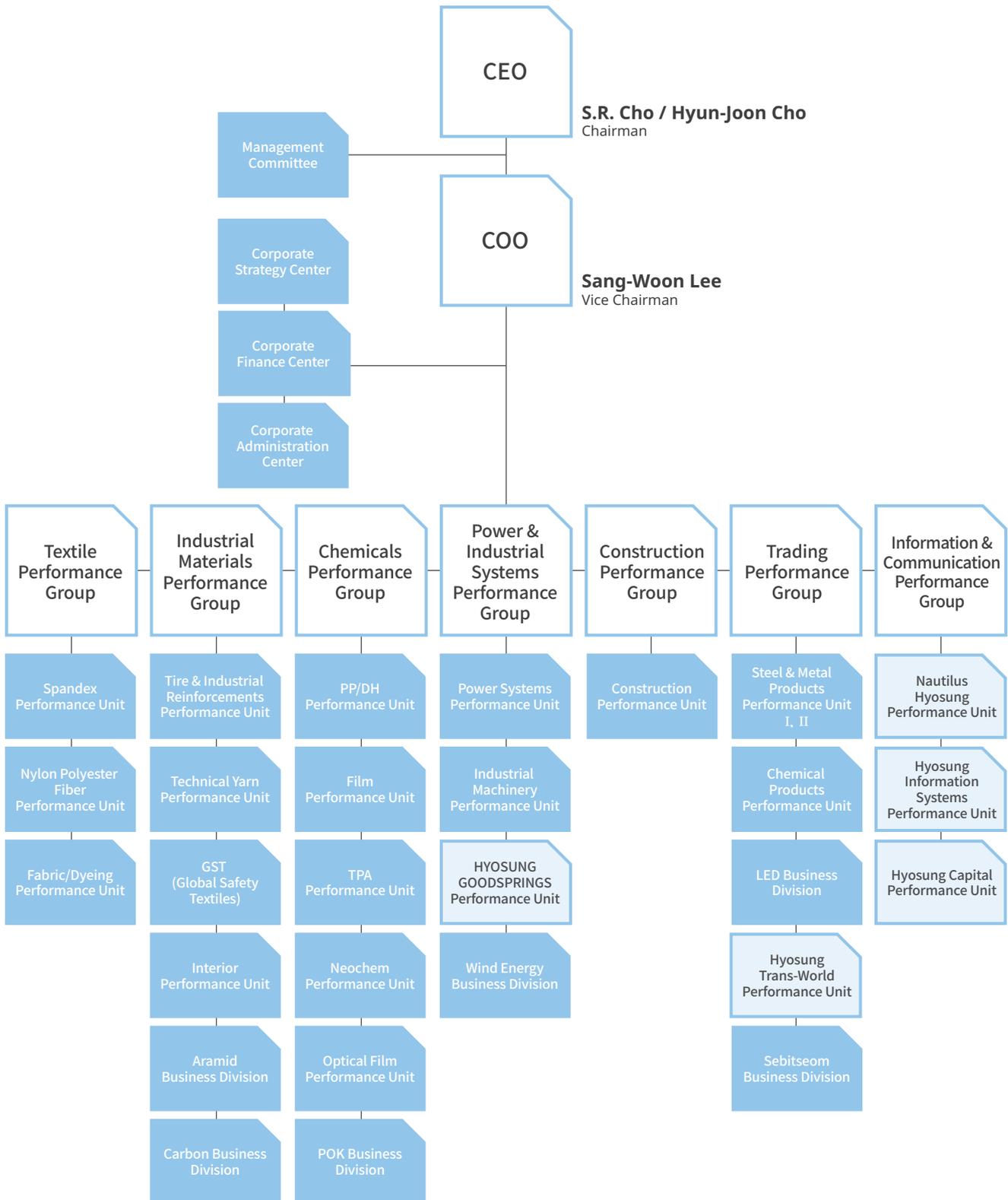
**Byung-Ju Lee**  
Advisor Bae, Kim & Lee LLC  
Former member of a standing  
committee, Fair Trade Commission



**Joong-Kyung Choi**  
President of KICPA  
Former Minister, the Ministry of  
Knowledge Economy

End of April 2017

# Corporate management



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# HYOSUNG

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