

Hyosung Corporation and Subsidiaries

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

(Attachment) Independent Auditor's Report

Hyosung Corporation and Subsidiaries
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December 31, 2016 and 2015

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
Hyosung Corporation

We have audited the accompanying 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 Matters¹

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.

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.

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

B. Revenue recognition based on the input method

As explained in the Note 3 to the 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.

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.

Other Matter

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

Seoul, Korea

March 9, 2017

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

(Attachment) Consolidated Financial Statements

Hyosung Corporation and Subsidiaries

The 62th period

From January 1st, 2016 to December 31st, 2016

The 61th period

From January 1st, 2015 to December 31st, 2015

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

CEO Sang-Woon Lee of Hyosung Corporation

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

Hyosung Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2016 and 2015

<i>(in millions of Korean won)</i>	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	4, 7, 8, 9	₩ 431,707	₩ 513,262
Trade and other receivables	4, 6, 7, 10, 19	1,736,071	1,859,542
Due from customers for contract work	4, 7, 29	116,982	93,748
Other financial assets	4, 7, 11	50,326	70,232
Other current assets	13	169,152	166,344
Inventories	14	1,524,770	1,498,284
Current tax assets		19,438	15,755
		<u>4,048,446</u>	<u>4,217,167</u>
Non-current assets			
Long-term trade and other receivables	4, 7, 10, 19	305,046	278,457
Property, plant and equipment	5, 15	5,845,022	5,628,843
Investment property	5, 16	628,823	620,004
Intangible assets	17	420,070	452,656
Investments in associates	18	115,373	110,941
Other financial business assets	4, 7, 12	2,091,145	2,058,256
Other non-current financial assets	4, 7, 9, 11	552,834	549,803
Other non-current assets	13	62,766	54,126
Deferred tax assets	23	51,276	42,925
		<u>10,072,355</u>	<u>9,796,011</u>
Total assets		<u>₩ 14,120,801</u>	<u>₩ 14,013,178</u>
Liabilities			
Current liabilities			
Trade and other payables	4, 7, 19, 21	₩ 1,786,517	₩ 1,491,379
Due to customers for contract work	29	98,278	108,120
Borrowings	4, 6, 7, 20	4,380,424	4,722,373
Other financial liabilities	4, 7, 11	29,504	24,815
Current tax liabilities		150,204	42,104
Other current liabilities	24	438,150	329,520
		<u>6,883,077</u>	<u>6,718,311</u>
Non-current liabilities			
Long-term trade and other payables	4, 7, 19, 21	376,166	367,690
Long-term borrowings	4, 7, 20	2,662,171	3,055,933
Post-employment benefit obligation	22	43,499	35,566
Deferred tax liabilities	23	234,631	252,121
Other non-current financial liabilities	4, 7, 11	7,226	8,184
Other non-current liabilities	24	72,815	103,260
		<u>3,396,508</u>	<u>3,822,754</u>
Total liabilities		<u>10,279,585</u>	<u>10,541,065</u>
Equity			
Equity attributable to owners of the Parent Company			
Share capital	25	175,587	175,587
Share premium		130,826	130,826
Retained earnings	26	2,996,260	2,660,446
Other components of equity	11, 23, 27	316,536	291,399
		<u>3,619,209</u>	<u>3,258,258</u>
Non-controlling interest	39	<u>222,007</u>	<u>213,855</u>
Total equity		<u>3,841,216</u>	<u>3,472,113</u>
Total liabilities and equity		<u>₩ 14,120,801</u>	<u>₩ 14,013,178</u>

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

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)

	Notes	2016	2015
Revenue	5, 19, 28, 29	₩ 11,929,113	₩ 12,458,454
Cost of sales	19, 29, 30	<u>(9,770,994)</u>	<u>(10,429,796)</u>
Gross profit		2,158,119	2,028,658
Selling and administrative expenses	30, 31, 32	(1,025,169)	(957,004)
Research and development expenses	30	(116,604)	(121,485)
Operating profit	5	<u>1,016,346</u>	<u>950,169</u>
Other income	33	66,276	89,692
Other expenses	33	<u>(185,300)</u>	<u>(128,515)</u>
Other income (expenses), net		<u>(119,024)</u>	<u>(38,823)</u>
Finance income	34	450,963	395,875
Finance expenses	34	<u>(680,086)</u>	<u>(721,382)</u>
Finance income (expenses), net		<u>(229,123)</u>	<u>(325,507)</u>
Profit of associates accounted for using the equity method, net	18	<u>28,315</u>	<u>11,451</u>
Profit before income tax		696,514	597,290
Income tax expense	23	<u>(221,112)</u>	<u>(71,399)</u>
Profit for the period		<u>₩ 475,402</u>	<u>₩ 525,891</u>
Profit is attributable to:			
Owners of the Parent Company	35	₩ 455,526	₩ 492,691
Non-controlling interests		<u>19,876</u>	<u>33,200</u>
		<u>₩ 475,402</u>	<u>₩ 525,891</u>
Earnings per share attributable to the equity holders of the Parent Company			
Basic earnings per share	35	₩ 13,692	₩ 14,809

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

Hyosung Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

(in millions of Korean won)

	Notes	2016	2015
Profit for the period		₩ 475,402	₩ 525,891
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liability	22	(2,814)	(19,089)
Share of remeasurements of net defined benefit liabilities of associates		(295)	(880)
<i>Items that may be subsequently reclassified to profit or loss</i>			
Change in the fair value of available-for-sale financial assets	11, 27	15,360	38,603
Share of other comprehensive income of associates	18, 27	(111)	8,401
Exchange differences	27	19,170	13,372
Other comprehensive income for the period, net of tax		31,310	40,407
Total comprehensive income for the period		₩ 506,712	₩ 566,298
Total comprehensive income for the period is attributable to:			
Owners of the Parent Company		₩ 483,932	₩ 533,412
Non-controlling interest		22,780	32,886
		₩ 506,712	₩ 566,298

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

Hyosung Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2016 and 2015

	Attributable to owners of the Parent Company				Total	Non-controlling Interest	Total Equity
	Share capital	Share premium	Retained Earnings	Other Components of Equity			
<i>(in millions of Korean won)</i>							
Balance at January 1, 2015	₩ 175,587	₩ 130,826	₩ 2,256,086	₩ 229,539	₩ 2,792,039	₩ 103,230	₩ 2,895,268
Total comprehensive income							
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
Transactions with owners							
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
Balance at December 31, 2015	₩ 175,587	₩ 130,826	₩ 2,660,446	₩ 291,399	₩ 3,258,258	₩ 213,855	₩ 3,472,113
Balance at January 1, 2016	₩ 175,587	₩ 130,826	₩ 2,660,446	₩ 291,399	₩ 3,258,258	₩ 213,855	₩ 3,472,113
Total comprehensive income							
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
Transactions with owners							
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)
Balance at December 31, 2016	₩ 175,587	₩ 130,826	₩ 2,996,260	₩ 316,536	₩ 3,619,209	₩ 222,007	₩ 3,841,216

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

Hyosung Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

<i>(in millions of Korean won)</i>	Notes	2016	2015
Cash flows from operating activities			
Cash generated from operations	37	₩ 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
Net cash inflow from operating activities		<u>1,812,938</u>	<u>1,334,055</u>
Cash flows from investing activities			
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)
Net cash outflow from investing activities		<u>(908,333)</u>	<u>(707,153)</u>
Cash flows from financing activities			
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)	-
Net cash outflow from financing activities		<u>(999,087)</u>	<u>(656,459)</u>
Effects of exchange rate changes on cash and cash equivalents		12,927	15,899
Net decrease in cash and cash equivalents		(81,555)	(13,658)
Cash and cash equivalents at the beginning of the financial year		<u>513,262</u>	<u>526,920</u>
Cash and cash equivalents at the end of the year in the consolidated statements of financial position		<u>₩ 431,707</u>	<u>₩ 513,262</u>

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

Hyosung Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

1. General Information

Hyosung Corporation (“the Company”) and its subsidiaries (collectively referred to as “the Group”) primarily manufactures and sells synthetic fiber products and electronic products, and is engaged in construction, financial business, and other related business activities.

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

As at December 31, 2016, the Group’s major shareholders are Cho Seok Rae (10.15%), Cho Hyun Joon (13.8%), and Cho Hyun Sang (12.21%).

1.1 Consolidated Subsidiaries

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

Subsidiaries	Percentage of Ownership ¹	Location	Reporting month	Main business
Galaxia Photonics Co., Ltd.	83.32%	Korea	December	Manufacture and sale of wafer and LED chips
Gongdeokgyeongwoo development corporation	73.33%	Korea	December	Construction
Forza Motors Korea Corp.	100%	Korea	December	Automotive sale and service
Doomi Construction Co., Ltd. ⁴	100%	Korea	December	Golf club operation service
Somesevit Corporation	57.83%	Korea	December	Service of real estate
Taeansolarfarm Corp.	100%	Korea	December	Solar power generation
HanaLandchip Private Real Estate Investment Trust No.39	77.01%	Korea	December	Service of real estate
SYHS the 1st co., Ltd. ³	-	Korea	December	Other
Hyosung Goodsprings, Inc.	100.00%	Korea	December	Manufacture of liquid pump
Hyosung Engineering Co., Ltd. ⁴	100.00%	Korea	December	Installation of environmental hygiene treatment Appliances
Hyosung Capital Co., Ltd.	97.15%	Korea	December	Finance factoring
Nautilus Hyosung Inc.	54.02%	Korea	December	Manufacture of ATM
ATM PLUS	28.69%	KOREA	December	CD VAN BUSINESS
NAUTILUS HYOSUNG CMS INC.	54.02%	Korea	December	Cash-in-transit of ATM
NAUTILUS HYOSUNG TECH INC.	54.02%	Korea	December	Maintenance and interior of ATM
Hyosung FMS Inc.	54.02%	Korea	December	Electronic payment agency
Nautilus Hyosung America Inc.	54.02%	USA	December	Sale and maintenance of ATM
Hyosung Financial System (Huizhou) Co., Ltd.	54.02%	Korea	December	Office machinery and equipment manufacturing
Hyosung Capital the 11th Securitization Specialty Co., Ltd. ²	0.49%	Korea	December	Other
Hyosung Capital the 12th Securitization Specialty Co., Ltd. ²	0.49%	Korea	December	Other
Hyosung Capital the 13th Securitization Specialty Co., Ltd. ²	0.49%	Korea	December	Other
Hyosung Capital the 14th Securitization Specialty Co., Ltd. ²	0.49%	Korea	December	Other
Hyosung Capital the 15th Securitization Specialty Co., Ltd. ²	0.49%	Korea	December	Other
Hyosung Capital the 17th Securitization Specialty Co., Ltd. ²	0.49%	Korea	December	Other
Hyosung Capital the 18th Securitization Specialty Co., Ltd. ²	0.50%	Korea	December	Other

Hyosung Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

Subsidiaries	Percentage of Ownership ¹	Location	Reporting month	Main business
Hyosung Capital the 19th Securitization Specialty Co., Ltd. ²	0.50%	Korea	December	Other
Hyosung Capital the 20th Securitization Specialty Co., Ltd. ²	0.50%	Korea	December	Other
Hyosung Capital the 21th Securitization Specialty Co., Ltd. ²	0.50%	Korea	December	Other
Hyosung Capital the 22th Securitization Specialty Co., Ltd. ²	0.50%	Korea	December	Other
Hyosung Capital the 23th Securitization Specialty Co., Ltd. ²	0.50%	Korea	December	Other
Hyosung Capital the 24th Securitization Specialty Co., Ltd. ²	0.50%	Korea	December	Other
HSC the 1st Co., Ltd. ²	-	Korea	December	Other
HSC the 2nd Co., Ltd. ²	0.97%	Korea	December	Other
HSC the 3rd Co., Ltd. ²	0.97%	Korea	December	Other
HSCS the 1st Co., Ltd. ²	-	Korea	December	Other
Hyosung Investment & Development Corporation	58.75%	Korea	December	Real estate development business
Hyosung Trans World Co., Ltd	100%	Korea	December	Intermodal transport arrangements
Baoding Hyosung Tianwei Transformer Co., Ltd.	80%	China	December	Transformer manufacturing
Central Trade Investment Ltd. ³	-	China	December	Other
CONSORCIOHYOSUNG-VIMAC,S.A. ³	-	Panama	December	Power & systems Performance Unit consortium
GST Global GmbH	100%	Germany	December	Germany holding company
Global Safety Textiles GmbH	100%	Germany	December	Manufacture and Sale of Air-bag cushion and Fabric
Global Safety Textiles LLC	100%	USA	December	Manufacture and sale of air-bag cushion and fabric
GST Safety Textiles RO S.R.L.	100%	Romania	December	Manufacture and sale of air-bag cushion and fabric
Global Safety Textiles U.S. Holdings, Inc.	100%	USA	December	U.S.A holding company
GST Automotive Safety Components International LLC	100%	USA	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety Components International LLC S.A.de C.V.	100%	Mexico	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety Poland Sp.z.oo	100%	Poland	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety RO S.R.L.	100%	Romania	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety South Africa (Proprietary) Limited	100%	South Africa	December	Manufacture and sale of air-bag cushion and fabric
GST Automotive Safety UK Limited	100%	UK	December	England holding company
GST Automotive Safety (Changshu) Co., Ltd.	100%	China	December	Manufacture and sale of air-bag cushion and fabric
GST China Investment Limited	100%	China	December	Hong Kong holding company
GST SAFETY TEXTILES MEXICO S. de R.L. de C.V.	100%	Mexico	December	Manufacture and sale of air-bag cushion and fabric
Hyosung Mexico S. de R.L. de C.V.	100%	Mexico	December	Manufacture and sale of air-bag cushion and fabric
HICO America Sales & Tech.	100%	USA	December	General trading
Hyosung (H.K) LIMITED	100%	China	December	General trading
Hyosung Brasil industria e comercio de fibras LTDA	100%	Brazil	December	Manufacture of spandex
Hyosung Brasil industrial & commercial LTDA	100%	Brazil	December	Manufacture and sale of tire cords
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	100%	China	December	Manufacture of polyesters thread and T/C
Hyosung Chemicals (Jiaxing) Co., Ltd.	100%	China	December	Manufacture of chemical product
Hyosung Corporation India Private Limited	100%	India	December	General trading
Hyosung RUS	100%	Russia	December	General trading

Hyosung Corporation and Subsidiaries

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Subsidiaries	Percentage of Ownership ¹	Location	Reporting month	Main business
Hyosung Europe SRL	100%	Italy	December	General trading
Hyosung (Taiwan) Corporation	100%	Taiwan	December	General trading
Hyosung Holdings USA	100%	USA	December	U.S.A holding company
Hyosung International Trade (Jiaxing) Co., Ltd.	100%	China	December	General trading
Hyosung International (HK) Ltd.	100%	China	December	General trading
Hyosung Istanbul TEKSTIL LTD.STI	76.66%	Turkey	December	Manufacture and sale of spandex
Hyosung Japan Co., Ltd.	100%	Japan	December	General trading
Hyosung Luxembourg S.A	100%	Luxembourg	December	Manufacture and sale of tire cords
Hyosung Resource (Australia) PTY Ltd.	100%	Australia	December	Resources development
Hyosung Singapore PTE Ltd.	100%	Singapore	December	General trading
Hyosung Spandex (GuangDong) Co., Ltd.	100%	China	December	Manufacture and sale of spandex
Hyosung Spandex (Jiaxing) Co., Ltd.	100%	China	December	Manufacture and sale of spandex
Hyosung Spandex (Zhuhai) Co., Ltd.	75%	China	December	Manufacture and sale of spandex
Hyosung SRL	100%	Romania	December	Manufacture and sale of tire cords
Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.	100%	China	December	Manufacture and sale of steel cord
Hyosung Steel Cord (Qingdao) Co., Ltd.	100%	China	December	Manufacture and sale of steel cord
Hyosung USA Inc.	100%	USA	December	Manufacture and sale of tire cords
Hyosung Vietnam Co., Ltd.	88.21%	Vietnam	December	Manufacture of tire cord, Manufacture and sales of spandex
Hyosung DongNai Co., Ltd.	76.66%	Vietnam	December	Manufacture of tire cords and spandex
Hyosung Spandex (Quzhou) Co., Ltd.	88.34%	China	December	Manufacture and sale of spandex
Hyosung New Material & High Technology (Quzhou) Co. Ltd.	88.17%	China	December	Manufacture of chemical product
Hyosung T&D India Pvt Ltd.	100%	India	December	Manufacture and sale of breaker
Hyosung Wire Luxembourg S.A	100%	Luxembourg	December	Manufacture of chemical fiber
Lloyd Dynamowerke GmbH	100%	Germany	December	Manufacture and sale of motor
Luckfaith Investment LTD. ³	-	China	December	Other
Nantong Hyosung Transformer Co., Ltd.	100%	China	December	Manufacture and sale of transformer
PT.HYOSUNG JAKARTA	99.90%	Indonesia	December	General trading
Zhangjiagang Xiaosha Coil Service Co., Ltd.	64.50%	China	December	Steel manufacturing and processing

¹ Percentage of ownership is the effective percentage of ownership considering ownership ratio of subsidiaries.

² Although the Group's owns is less than 50% of voting rights, the Group has ability to materially impact the returns of the investees and is exposed to variable returns of the investees. Accordingly, the Group is considered to have substantive power over the entities.

³ These subsidiaries are included in the scope of consolidation due to de facto control.

⁴ The Group plans to merge Doomi Construction Co., Ltd. and Hyosung Engineering Co., Ltd. using small-scale merger method on April 1, 2017.

Although the Group owns 98.5% of OpCp GmbH (located in Germany) which is over 50%, the Group cannot control OpCo GmbH since it is under a process of liquidation and control of legal administrator. Therefore it is excluded from scope of consolidation.

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Summary of financial information of material subsidiaries as at and for the years ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)

	2016					
	Asset	Liability	Equity	Revenue	Profit(loss) for the year	Total comprehensive income(loss)
Hyosung Capital Co., Ltd.	2,477,524	2,090,460	387,064	189,467	8,157	16,910
Hyosung Vietnam Co., Ltd.	966,444	583,687	382,757	1,131,331	148,795	169,927
Nautilus Hyosung Inc. ¹	559,086	282,471	276,615	693,424	25,998	24,317
Hyosung DongNai Co.,Ltd.	500,070	443,567	56,503	157,208	16,316	16,976
GST Global GmbH ²	434,311	356,927	77,384	404,344	(16,663)	(14,889)
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	294,892	142,508	152,384	283,711	(3,301)	(8,392)
Doomi Construction Co. Ltd.	261,086	308,118	(47,032)	13,097	(17,440)	(17,424)
Hyosung Spandex (GuangDong) Co., Ltd.	276,203	157,115	119,088	212,400	(9,375)	(13,440)
Hyosung Spandex (Jiaxing) Co., Ltd.	247,747	123,647	124,100	140,572	21,705	17,385
Hyosung USA Inc.	214,543	119,042	95,501	586,074	4,248	7,162
Hyosung Goodsprings, Inc.	208,461	137,366	71,095	268,018	6,707	6,568
Nantong Hyosung Transformer Co., Ltd.	194,063	203,634	(9,571)	122,519	(14,317)	(14,406)
HanaLandchip Private Real Estate Investment Trust No.39	191,944	159,950	31,994	8,065	1,945	1,945
Hyosung Istanbul TEKSTIL LTD.STI	185,267	92,844	92,423	160,142	30,847	34,899
Hyosung Holdings USA	185,093	86,223	98,870	74,116	267	973
Gongdeokgyeongwoo development corporation	174,770	176,074	(1,304)	-	(1,297)	(1,298)
Hyosung Steel Cord (Qingdao) Co., Ltd.	174,736	159,372	15,364	128,977	(19,407)	(20,095)
HICO America Sales & Tech.	152,134	121,216	30,918	240,125	6,815	7,838
Hyosung Chemicals (Jiaxing) Co., Ltd.	116,426	44,833	71,593	152,320	3,298	1,347
Forza Motors Korea Corp.	104,857	89,066	15,791	188,643	1,323	1,323
Hyosung Japan Co., Ltd.	95,718	80,320	15,398	421,716	388	1,616
Hyosung International Trade (Jiaxing) Co., Ltd.	95,551	92,283	3,268	313,963	(1,718)	(1,773)
Hyosung Brasil industria e comercio de fibras LTDA	81,847	41,291	40,556	105,962	21,628	27,848
Hyosung Luxembourg S.A	47,920	10,599	37,321	150,408	4,936	4,552
Hyosung Trans World Co., Ltd.	35,644	26,309	9,335	188,086	3,558	3,630
Hyosung Singapore PTE Ltd.	4,650	4,383	267	209,914	69	70

¹ Consolidated financial information of Nautilus Hyosung Inc. and its 7 subsidiaries.

² Consolidated financial information of GST Global GmbH and its 12 subsidiaries.

Hyosung Corporation and Subsidiaries

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(in millions of Korean won)

	2015					
	Asset	Liability	Equity	Revenue	Profit(loss) for the year	Total comprehensive income(loss)
Hyosung Capital Co., Ltd.	2,433,905	2,063,751	370,154	202,279	27,398	34,258
Nautilus Hyosung Inc. ¹	600,868	348,532	252,336	431,359	11,585	6,515
Doomi Construction Co. Ltd	252,979	282,588	(29,609)	10,589	(14,519)	(14,550)
Hyosung Goodsprings, Inc.	225,773	157,645	68,128	283,233	7,697	7,460
HanaLandchip Private Real Estate Investment Trust No.39	191,902	159,919	31,983	10,482	1,895	1,895
Gongdeokgyeongwoo development corporation	87,172	87,178	(6)	-	(1,329)	(1,334)
Forza Motors Korea Corp.	66,083	51,297	14,786	110,340	638	660
Hyosung Trans World Co., Ltd.	33,054	24,949	8,105	181,418	3,257	3,147
Hyosung Vietnam Co., Ltd.	1,041,895	681,414	360,481	1,130,058	147,510	165,787
GST Global GmbH ²	460,665	368,392	92,273	379,469	(26,962)	(23,886)
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	312,109	151,333	160,776	275,147	7,020	8,421
Hyosung Spandex (GuangDong) Co., Ltd.	302,388	165,927	136,461	254,378	18,190	19,200
Hyosung Spandex (Jiaxing) Co., Ltd.	259,244	116,791	142,453	161,520	31,917	32,979
Hyosung USA Inc.	247,785	159,446	88,339	630,598	8,560	13,807
Nantong Hyosung Transformer Co., Ltd.	203,035	198,201	4,834	131,004	(8,716)	(8,435)
Hyosung Steel Cord (Qingdao) Co., Ltd.	197,336	161,877	35,459	103,912	(20,075)	(21,118)
HICO America Sales & Tech.	196,534	173,457	23,077	167,330	8,820	10,007
Hyosung Istanbul TEKSTIL LTD.STI	169,909	98,903	71,006	181,034	37,200	27,901
Hyosung DongNai Co., Ltd.	161,672	146,809	14,863	17,322	3,033	3,903
Hyosung Chemicals (Jiaxing) Co., Ltd.	139,212	47,843	91,369	196,386	26,390	26,864
Hyosung International Trade (Jiaxing) Co., Ltd.	123,037	117,995	5,042	351,844	2,010	2,028
Hyosung Brasil industria e comercio de fibras LTDA	86,804	74,094	12,710	97,168	1,672	(3,048)
Hyosung Japan Co., Ltd.	84,346	70,565	13,781	369,404	851	1,666
Hyosung Holdings USA	59,626	36,872	22,754	51,746	347	1,750
Hyosung Luxembourg S.A	41,706	9,009	32,697	148,956	8,311	7,428
Hyosung Singapore PTE Ltd.	4,723	4,526	197	142,893	26	26

¹ Consolidated financial information of Nautilus Hyosung Inc. and its 7 subsidiaries.

² Consolidated financial information of GST Global GmbH and its 12 subsidiaries.

Hyosung Corporation and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2016 and 2015

1.2 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation for the year ended December 31, 2016, are as follows:

Subsidiary	Description
Hyosung Capital the 20th Securitization Specialty Co., Ltd.	Newly acquired
Hyosung Capital the 21st Securitization Specialty Co., Ltd.	"
GST SAFETY TEXTILES MEXICO S. de R.L. de C.V.	"
Hyosung Mexico S. de R.L. de C.V.	"
Hyosung New Material & High Technology (Quzhou) Co. Ltd.	"
Hyosung Capital the 22nd Securitization Specialty Co., Ltd.	"
Hyosung Capital the 23rd Securitization Specialty Co., Ltd.	"
CONSORCIOHYOSUNG-VIMAC,S.A.	"
Hyosung Capital the 24th Securitization Specialty Co., Ltd.	"
HSC the 3rd Co., Ltd.	"
SYHS the 1st Co., Ltd.	"

Subsidiaries excluded from the consolidation for the year ended December 31, 2016, are as follows:

Subsidiary	Description
Hyosung Capital the 7th Securitization Specialty Co., Ltd.	Liquidated
Hyosung Capital the 8th Securitization Specialty Co., Ltd.	"
Hyosung Capital the 9th Securitization Specialty Co., Ltd.	"
Hyosung Capital the 10th Securitization Specialty Co., Ltd.	"
Beijing Hyosung Computer Technologies.Co., Ltd. ¹	Disposal
Hyosung Composites (Guangdong) Co., Ltd. ²	Merger
Xepix Corp.	Liquidated
Hyosung Capital the 16th Securitization Specialty Co., Ltd.	"
Hana HS 1st co., Ltd	Loss of De facto control
Hana HS 2nd co., Ltd	"

¹ During 2016, the Group disposed the share of Beijing Hyosung Computer Technologies. Co., Ltd and recognized gain of disposal of ₩ 24,791 million.

² Hyosung Composites (Guangdong) Co., Ltd. was merged to Hyosung Spandex (GuangDong) Co., Ltd. during 2016.

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Notes to Consolidated Financial Statements

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2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

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

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Notes to Consolidated Financial Statements

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2.2 Changes in Accounting Policy and Disclosures

(a) New and amended standards adopted by the Group

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

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

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

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

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

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

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

- Investment entities: Applying the Consolidation Exception – Amendments to Korean IFRS 1110 Consolidated Financial Statements, Korean IFRS 1028 Investments in Associates and Joint Ventures, and Korean IFRS 1112 Disclosures of Interests in Other Entities

- Amendments made to Korean IFRS 1110 *Consolidated Financial Statements* clarify that the exception from preparing consolidated financial statement is also available to intermediate parent entities which are subsidiaries of investment entities. If an investment entity has a subsidiary that is an investment entity and whose activities are providing services that related to the investment entity's investment activities, the investment entity measures the subsidiary at fair value through profit or loss.

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- Amendments made to Korean IFRS 1028 *Investments in Associates and Joint Ventures* clarify that entities which are not investment entities but have an interest in an associate which is an investment entity have a policy choice when applying the equity method of accounting.
- Amendments made to Korean IFRS 1112 *Disclosures of Interests in Other Entities* clarify that an investment entity which does not prepare consolidated financial statements should present disclosures relating to investment entities required by Korean IFRS 1112.

- *Accounting for Acquisitions of Interests in Joint Operations* – Amendments to Korean IFRS 1111 *Joint Arrangements*

Amendments to Korean IFRS 1111 *Joint Arrangements* clarify the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. An investor requires to apply the principles of business combination accounting when the investor acquires an interest in a joint operation that constitutes a business.

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

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

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

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

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

- Amendments to Korean IFRS 1012 *Income Tax*

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

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

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

- Korean IFRS 1109 *Financial Instruments*

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

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

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

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

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

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(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.

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

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.

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

According to Korean IFRS 1109, equity instruments that are not held for trading, the 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) Impairment: Financial Assets and Contract Assets

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

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

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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.

Stage¹		Loss allowance
1	No significant increase in credit risk after initial recognition ²	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

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.

- Korean IFRS 1115 Revenue from Contracts with Customers

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

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

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

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

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

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

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Goodwill is recognized as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

(b) Associates

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

2.4 Segment Reporting

Information of each segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (Note 5). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management of the Group.

2.5 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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2.6 Financial Assets

(a) Classification and measurement

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

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

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

(b) Impairment

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

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

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by more than 50% from its cost or a prolonged decline below its cost for more than one year is also objective evidence of impairment.

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(c) Derecognition

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

(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.

2.7 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statements of profit or loss within 'other income (expenses)' according to the nature of transactions.

2.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method (the gross-weighted average method or the first-in, first-out (FIFO) method in some subsidiaries) except for in-transit inventories which are determined using the specific identification method.

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2.9 Property, Plant and Equipment

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Estimated Useful Lives			Estimated Useful Lives		
Buildings	20 - 60	years	Vehicles	3 - 10	years
Structures	5 - 40	years	Tools and equipment	3 - 15	years
Machinery	3 - 25	years	Others	2 - 10	years

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

2.10 Borrowing Costs

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

2.11 Government Grants

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

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2.12 Intangible Assets

Goodwill is measured as explained in Note 2.3.(1) and carried at its cost less accumulated impairment losses.

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

Internally generated software development costs are the aggregate costs recognized after meeting the asset recognition criteria, including technical feasibility, and determined to have future economic benefits. Membership 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 assets are expected to be utilized. Intangible assets with definite useful life that are amortized using the straight-line method over their estimated useful lives, are as follows:

	Estimated Useful Lives
Industrial rights	5 - 10 years
Other intangible assets	5 - 25 years

2.13 Investment Property

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using the straight-line method over 40 years.

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2.14 Lease

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases where all the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term.

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases and recognized as lease assets and liabilities at the lower of the fair value of the leased property and the present value of the minimum lease payments on the opening date of the lease period.

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

2.15 Impairment of Non-financial Assets

Goodwill or intangible assets with indefinite useful lives are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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2.16 Financial Liabilities

(a) Classification and measurement

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

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

Preferred shares that provide for a mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares calculated using the effective interest method are recognized in the statements of profit or loss as 'finance expenses', together with interest expenses recognized on other financial liabilities.

(b) Derecognition

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

2.17 Financial Guarantee Contracts

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

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

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2.18 Provisions

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

2.19 Current and Deferred Tax

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

The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

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

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2.20 Employee Benefits

(a) Post-employment benefits

The Group has both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The contributions are recognized as employee benefit expense when an employee has rendered service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

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

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2.21 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal activities of the Group. It is stated as net of value added taxes, returns, rebates and discounts, after elimination of intra-company transactions.

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

(a) Sale of goods

Revenue from the sale of goods is recognized when products are delivered to the purchaser.

(b) Rendering of services

Normally, if the contract is based on time and materials related to rendering design services, revenue is recognized according to the percentage of completion. If the contract is based on time, the percentage of completion is measured on the time provided over the total estimated time to be provided, and if the contract is based on materials, the percentage of completion is measured based on the direct costs to date over the total estimated 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.

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2.22 Construction Contracts

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

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

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. Contract costs are recognized as an expense in the period in which they are incurred.

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

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

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

2.23 Approval of Issuance of the Financial Statements

The issuance of the December 31, 2016 financial statements of the Group was approved by the Board of Directors on February 17, 2017, which is subject to change with the approval of the shareholders at their annual shareholders' meeting.

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3. Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. Estimations and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 17).

(b) 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 23).

(c) 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 4).

(d) Provisions

As described in Note 24, the Group recognizes provisions for warranties, repairs and estimated returns as at the reporting date. The amounts are estimated based on historical data.

(e) Net defined benefit liabilities

The present value of net defined benefit liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 22).

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(f) Uncertainty of the estimated total contract revenue

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

(g) Estimated total contract costs

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

4. Financial Risk Management

4.1 Financial Risk Factors

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

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

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(a) Market risk

i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro, Chinese yuan and other currencies; such as, the Japanese yen, Turkish lira and Singapore dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

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

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

The impact of weakened/strengthened Korean won by 10% against foreign currencies with all other variables held constant on the pre-tax profit for the year as at December 31, 2016 and 2015, is as follows:

(in millions of Korean won)

		Impact on pre-tax profit	
		2016	2015
USD	Strengthened	₩ (101,364)	₩ (42,291)
	Weakened	101,364	42,291
EUR	Strengthened	(26,020)	(32,783)
	Weakened	26,020	32,783
JPY	Strengthened	(7,770)	(7,131)
	Weakened	7,770	7,131
Others	Strengthened	1,238	1,763
	Weakened	(1,238)	(1,763)

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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 or at fair value through profit or loss.

The Group's investments in equity of other entities that are publicly traded are included in one of the following two equity indexes: KOSPI equity index and KOSDAQ equity index.

As at December 31, 2016 and 2015, the impact of increases/decreases of the stock price by 30% with all other variables held constant on the Group's equity is as follows:

<i>(in millions of Korean won)</i>				Impact on equity	
				2016	2015
KOSPI	Increase	₩	52,703	₩	56,600
	Decrease		(52,703)		(56,600)
KOSDAQ	Increase		1,665		2,133
	Decrease		(1,665)		(2,133)

iii) 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 is exposed to interest rate risk due to its borrowings in fixed and floating interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Group policy is to review on interest rate fluctuation periodically so that they can manage whether to repay or renew the borrowings.

The impact of 100 basis points higher/lower of interest rate with all other variables held constant on the Group's pre-tax profit for the year as at December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>				Impact on post-tax profit	
				2016	2015
Increase		₩	(30,147)	₩	(35,479)
Decrease			30,147		35,479

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(b) Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, financial assets and outstanding receivables, etc. If customers are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored. See Note 10 for further disclosure on credit risk.

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

<i>(in millions of Korean won)</i>		2016		2015
Cash and cash equivalents ¹	₩	427,398	₩	479,877
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
Long-term trade and other receivables		305,046		278,457
Other financial business assets		2,091,145		2,058,256
Other non-current financial assets		552,834		549,803
Financial guarantee contract(note 38)		771,652		662,914

¹ The difference between 'cash and cash equivalents' presented in the consolidated statements of financial position is cash on hand held by the Group.

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(c) Liquidity Risk

The Group 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 (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's short-term and long-term debt financing plans, covenant compliance and compliance with internal financial ratio targets.

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

<i>(in millions of Korean won)</i>		Less than 1 year	Between 1 and 5 years	Over 5 years	Total	
2016						
Trade and other payables	₩	1,788,737	₩	373,963	₩	2,187,986
Borrowings(including interest expense)		4,535,176		2,819,783		7,373,804
Derivative liabilities ¹		36,730		-		36,730
Financial guarantees ²		596,661		-		596,661
PF guarantees ²		174,991		-		174,991
	₩	<u>7,132,295</u>	₩	<u>3,193,746</u>	₩	<u>10,370,172</u>
2015						
Trade and other payables	₩	1,491,689	₩	381,140	₩	1,882,962
Borrowings(including interest expense)		4,897,210		3,149,308		8,070,253
Derivative liabilities ¹		24,815		8,184		32,999
Financial guarantees ²		482,523		-		482,523
PF guarantees ²		180,391		-		180,391
	₩	<u>7,076,687</u>	₩	<u>3,538,632</u>	₩	<u>10,649,128</u>

¹ Trading portfolio derivative instruments have been included at their fair value of ₩ 36,730 million (2015: ₩ 24,815 million) within the less than 1 year time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net fair value basis rather than by maturity date.

² The amount of above financing guarantee contract is the maximum contractual payment that the Group is obliged to pay if the principal debtor claims the whole amount of guarantees. The possibility of not paying the guarantee is higher than that of paying the guarantee according to the financing guarantee contract based on the estimation as at year-end. Yet, the possibility of principal debtor in claiming payment from the Group can change based on the change in the financial condition of the principal debtor.

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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.

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

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

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

<i>(in millions of Korean won)</i>	2016		2015	
Total borrowings	₩	7,042,595	₩	7,778,306
Less: cash and cash equivalents		(431,707)		(513,262)
Net debt (A)		<u>6,610,888</u>		<u>7,265,044</u>
Total equity (B)		<u>3,841,216</u>		<u>3,472,114</u>
Total capital (A+B=C)		<u>10,452,104</u>		<u>10,737,158</u>
Gearing ratio (A/C)		63.25%		67.66%

4.3 Fair Value Estimation

4.3.1 Fair Value of Financial Instruments by Category

The carrying amount of financial instruments approximates to their fair value except for available-for-sale financial assets that are measured at cost as they do not have a quoted market price in an active market and their fair value cannot be measured reliably.

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4.3.2 Financial Instruments Measured at Cost

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

(in millions of Korean won)

		2016		2015	
Available-for-sale financial assets (unlisted)	Oksan Ochang Highway Corporation	₩	14,970	₩	14,970
	Kumho & Company Incorporation		10,000		10,000
	TransLink Capital Partners 1, L.P. ¹		1,364		2,022
	Doosan Capital Inc. ²		537		1,355
	The Korea Economic Daily		1,354		1,354
	Others		2,559		2,900
	Available-for-sale financial assets (investment in capital)	Creative Economy Fund		10,000	
Construction Guarantee Cooperative			3,498		3,498
Machinery Financial Cooperative			4,410		4,410
Korea Software Financial Cooperative			700		100
Korea Specialty Contractor Financial Cooperative			277		41
Korea Electrical Manufacturers' Cooperative			156		156
I-um II Corporate Financing Stabilization Private Equity Fund			-		5,000
KDBC I-um III Private Equity Fund			-		3,225
ENF-Jade Private Equity Fund			-		2,571
Medici 2015-2 Association of investment			-		2,000
Others			1,715		2,689
Government Bonds			689		162
		<u>₩</u>	<u>52,229</u>	<u>₩</u>	<u>61,453</u>

¹ The Group recognized loss on impairment of equity instruments of TransLink Capital Partners 1, L.P. amounting to \ 658 million in the consolidated statements of income, because the Group judged that objective evidence of impairment has occurred in relation to equity instruments of TransLink Capital Partners 1, L.P.

² The Group recognized loss on impairment of equity instruments of Doosan Capital Co., Ltd. amounting to \ 818 million in the consolidated statements of income, because the Group judged that objective evidence of impairment has occurred in relation to equity instruments of Doosan Capital Co., Ltd.

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

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4.3.3 Fair Value Hierarchy

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

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

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

		2016			
<i>(in millions of Korean won)</i>		Level 1	Level 2	Level 3	Total
Assets					
Available-for-sale financial assets	₩	238,772	₩ -	₩ 179,602	₩ 418,374
Derivative assets		80	5,176	875	6,131
	₩	<u>238,852</u>	₩ <u>5,176</u>	₩ <u>180,477</u>	₩ <u>424,505</u>
Liabilities					
Derivative liabilities	₩	-	₩ 36,730	₩ -	₩ 36,730
	₩	<u>-</u>	₩ <u>36,730</u>	₩ <u>-</u>	₩ <u>36,730</u>
		2015			
<i>(in millions of Korean won)</i>		Level 1	Level 2	Level 3	Total
Assets					
Available-for-sale financial assets	₩	257,902	₩ -	₩ 143,587	₩ 401,489
Derivative assets		-	15	875	890
	₩	<u>257,902</u>	₩ <u>15</u>	₩ <u>144,462</u>	₩ <u>402,379</u>
Liabilities					
Derivative liabilities	₩	-	₩ 32,999	₩ -	₩ 32,999
	₩	<u>-</u>	₩ <u>32,999</u>	₩ <u>-</u>	₩ <u>32,999</u>

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4.3.4 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)

	Available-for-sale financial assets		Derivative assets	
	2016	2015	2016	2015
Beginning balance	₩ 143,587	₩ 84,826	₩ 875	₩ 2,981
Purchases (disposal)	55,865	37,601	-	(2,106)
Amount recognized in other comprehensive income	1,759	10,486	-	-
Others	(21,609)	10,674	-	-
Ending balance	₩ 179,602	₩ 143,587	₩ 875	₩ 875

4.3.5 Valuation Technique and the Inputs

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

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses various valuation techniques and makes judgments based on current market conditions. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to measure the fair value of an instrument are observable, the instrument is included in 'level 2'. Financial instruments included in 'level 2' are derivative financial instruments. The fair value of derivative financial instruments is measured at discount using forward exchange rate as at the reporting date.

If one or more of the significant inputs are not based on observable market data, the instrument is included in 'level 3'. Financial instrument included 'level 3' uses other method including discounting cash flow method and others.

4.3.6 Valuation Processes for Fair Value Measurements Categorized Within Level 3

The Group measures recurring, non-recurring fair value measurements and disclosed fair values categorized within Level 3 of the fair value hierarchy at the end of every reporting period. The Group discusses valuation processes and results with the chief financial officer (CFO).

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5. Operating Segment Information

(a) Operating segment information

The management which makes strategic decisions has determined the operating segments. The management makes strategic decisions on allocation of resources to segments and assesses the performance of operating segments based on the operating profit. Product separation units in terms of type of goods were separated as fabric, industrial materials, chemicals, heavy industrial, construction, trading and others.

The Group's operating segment information for the years ended December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won)</i>	2016							Consolidation adjustment	Total
	Fabric	Industrial materials	Chemical	Heavy industrial	Construction	Trading	Others		
Total revenue	₩ 1,980,757	₩ 2,383,859	₩ 1,320,572	₩ 2,580,477	₩ 900,490	₩ 2,290,517	₩ 886,733	₩ -	₩ 12,343,405
Inter-segment revenue	(1,653)	-	(126,320)	(23,033)	(8,245)	(251,772)	(3,269)	-	(414,292)
	1,979,104	2,383,859	1,194,252	2,557,444	892,245	2,038,745	883,464	-	11,929,113
Operating income(loss)	313,002	218,484	148,276	185,365	81,729	8,945	72,780	(12,235)	1,016,346
Depreciation and amortization	147,506	199,220	144,908	47,157	5,557	5,604	69,928	3,483	623,363
Assets									
Current assets	990,909	1,169,622	303,805	1,180,435	310,297	295,809	512,179	(714,610)	4,048,446
Non-current assets	1,151,498	2,009,720	1,446,222	1,132,734	732,416	94,114	5,398,861	(1,893,210)	10,072,355
Investments in associates	-	15,311	14,969	12,333	-	-	72,760	-	115,373
Acquisition of non-current assets	391,366	224,621	279,058	67,146	89,596	7,542	74,374	(132,243)	1,001,460
Liabilities									
Current liabilities	912,549	891,676	296,493	986,765	324,195	295,936	3,710,688	(535,225)	6,883,077
Non-current liabilities	111,529	259,636	51,717	154,350	480,548	11,537	2,474,058	(146,867)	3,396,508

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(in millions of Korean won)	2015								Total
	Fabric	Industrial materials	Chemical	Heavy industrial	Construction	Trading	Others	Consolidation adjustment	
Total revenue	₩2,105,941	₩ 2,374,834	₩ 1,214,017	₩ 2,501,169	₩ 896,447	₩ 3,000,138	₩ 655,958	₩ -	₩ 12,748,504
Inter-segment revenue	(1,431)	-	(145,913)	(7,783)	(5,470)	(125,549)	(3,904)	-	(290,050)
	2,104,510	2,374,834	1,068,104	2,493,386	890,977	2,874,589	652,054	-	12,458,454
Operating income(loss)	424,805	150,094	100,685	162,203	48,043	29,844	56,473	(21,978)	950,169
Depreciation and amortization	121,419	200,164	119,484	48,121	6,053	8,566	62,609	3,660	570,076
Assets									
Current assets	1,199,556	710,834	236,432	1,151,617	391,348	503,589	648,912	(625,121)	4,217,167
Non-current assets	1,691,084	1,419,745	1,319,211	1,128,014	823,012	128,927	5,050,800	(1,764,782)	9,796,011
Investments in associates	-	11,184	14,404	14,017	-	-	71,336	-	110,941
Acquisition of non-current assets	218,211	152,105	286,765	60,237	30,087	46,198	88,922	(118,462)	764,063
Liabilities									
Current liabilities	1,220,446	629,722	297,461	1,058,899	416,872	495,263	3,101,630	(501,982)	6,718,311
Non-current liabilities	404,748	332,215	24,077	165,511	373,277	16,181	2,701,732	(194,987)	3,822,754

(b) Geographical segment information

Geographical segment information of revenue and other for the years ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)	2016					
	Domestic	North and Central America	Asia	Europe	Others	Total
Revenue	₩ 8,898,526	₩ 664,154	₩ 1,440,320	₩ 821,290	₩ 104,823	₩ 11,929,113
Non-current assets ¹	₩ 4,760,083	₩ 53,520	₩ 1,699,648	₩ 333,435	₩ 47,229	₩ 6,893,915

(in millions of Korean won)	2015					
	Domestic	North and Central America	Asia	Europe	Others	Total
Revenue	₩ 9,367,565	₩ 653,304	₩ 1,504,315	₩ 835,195	₩ 98,075	₩ 12,458,454
Non-current assets ¹	₩ 4,740,313	₩ 26,111	₩ 1,529,453	₩ 366,134	₩ 39,493	₩ 6,701,504

¹ Sum of property, plant and equipment, intangible assets, and investment properties.

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6. Transfers of Financial Assets

Trade receivables have been discounted through factoring agreements with banks for the years ended December 31, 2016 and 2015. In case of the customer's default, the Group has an obligation to pay the related amounts to the bank. As a result, this transaction, which is treated as a transaction with recourse, has been accounted for as a collateralized borrowing (Notes 10, 20 and 38).

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

(in millions of Korean won)

	2016		2015	
Loan and receivables				
Carrying amount of assets	₩	658,901	₩	549,968
Carrying amount of associated liabilities		(658,901)		(549,968)
Net position		-		-

7. Financial Instruments by Category

Categorizations of financial instruments as at December 31, 2016 are as follows:

(in millions of Korean won)

	2016			
	Loans and receivables	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	₩ 431,707	₩ -	₩ -	₩ 431,707
Trade and other receivables	1,736,071	-	-	1,736,071
Due from customers for contract work	116,982	-	-	116,982
Other financial assets	45,586	-	4,740	50,326
Long-term trade and other receivables	305,046	-	-	305,046
Other financial business assets	2,049,066	-	-	2,049,066
Other non-current financial assets	80,840	470,603	1,391	552,834
	₩ 4,765,298	₩ 470,603	₩ 6,131	₩ 5,242,032

(in millions of Korean won)

	2016			
	Financial liabilities at amortized cost	Other financial liabilities	Derivative liabilities	Total
Trade and other payables	₩ 1,786,517	₩ -	₩ -	₩ 1,786,517
Borrowings	3,721,523	658,901	-	4,380,424
Other financial liabilities	-	-	29,504	29,504
Long-term trade and other payables	376,166	-	-	376,166
Long-term borrowings	2,662,171	-	-	2,662,171
Other non-current financial liabilities	-	-	7,226	7,226
	₩ 8,546,377	₩ 658,901	₩ 36,730	₩ 9,242,008

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Categorizations of financial instruments as at December 31, 2015 are as follows:

(in millions of Korean won)

	2015			
	Loans and receivables	Available-for- sale financial assets	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	₩ 513,262	₩ -	₩ -	₩ 513,262
Trade and other receivables	1,859,542	-	-	1,859,542
Due from customers for contract work	93,748	-	-	93,748
Other financial assets	48,519	21,713	-	70,232
Long-term trade and other receivables	278,457	-	-	278,457
Other non-current financial business assets	2,017,542	-	-	2,017,542
Other non-current financial assets	107,685	441,229	889	549,803
	<u>₩ 4,918,755</u>	<u>₩ 462,942</u>	<u>₩ 889</u>	<u>₩ 5,382,586</u>

(in millions of Korean won)

	2015			
	Financial liabilities at amortized cost	Other financial liabilities	Derivative liabilities	Total
Trade and other payables	₩ 1,491,320	₩ 59	₩ -	₩ 1,491,379
Borrowings	4,172,405	549,968	-	4,722,373
Other financial liabilities	-	-	24,815	24,815
Long-term trade and other payables	367,690	-	-	367,690
Long-term borrowings	3,055,933	-	-	3,055,933
Other non-current financial liabilities	-	-	8,184	8,184
	<u>₩ 9,087,348</u>	<u>₩ 550,027</u>	<u>₩ 32,999</u>	<u>₩ 9,670,374</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Loans and receivables		
Gain (loss) on disposal (profit or loss)	₩ (2,025)	₩ 1,970
Interest income	7,306	5,750
Gain on foreign currency translation	16,386	44,164
Bad debts expense	(53,441)	(8,057)
Reversal of allowance for bad debt	129	50
Available-for-sale financial assets		
Gain on valuation (other comprehensive income(loss))	16,696	55,220
Gain on disposal (profit or loss)	13,814	1,069
Impairment loss (profit or loss)	(1,492)	(1,310)
Interest income	5	-
Dividend income	188	588
Financial liabilities at amortized cost		
Interest expenses	(161,264)	(166,908)
Loss on foreign currency translation	(102,527)	(142,539)
Other financial liabilities		
Interest expenses	(9,022)	(12,392)
Gain (loss) on foreign currency translation	8,156	(25,561)
Derivative assets and liabilities		
Loss on valuation (profit or loss)	(19,324)	(33,208)
Gain (loss) on transactions (profit or loss)	19,526	(22,363)

8. Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of financial position as at December 31, 2016 and 2015, are identical to the cash and cash equivalents in the consolidated statements of cash flows:

<i>(in millions of Korean won)</i>	2016	2015
Cash on hand	₩ 4,309	₩ 33,385
Bank deposits	427,398	479,877
	<u>₩ 431,707</u>	<u>₩ 513,262</u>

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9. Restricted Financial Instruments

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

<i>(in millions of Korean won)</i>	Description	2016		2015	
Cash and cash equivalents	Pledge for borrowings	₩	1,278	₩	3,814
	Others		12,883		10,048
Long-term trade and other receivables	Foreign currency payment guarantees		-		2
Other non-current financial assets	Restricted for current deposits and lease deposits received		1,655		101
	Pledge for borrowings		2,369		1,410
		₩	<u>18,185</u>	₩	<u>15,375</u>

10. Trade and Other Receivables

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

<i>(in millions of Korean won)</i>	2016		
	Receivable amounts	Provisions for impairment	Net book value
Trade receivables	₩ 1,593,080	₩ (49,142)	₩ 1,543,938
Other receivables	195,436	(3,303)	192,133
Long-term trade receivables	24,484	(10,725)	13,759
Long-term other receivables	352,804	(61,517)	291,287
	₩ <u>2,165,804</u>	₩ <u>(124,687)</u>	₩ <u>2,041,117</u>

<i>(in millions of Korean won)</i>	2015		
	Receivable amounts	Provisions for impairment	Net book value
Trade receivables	₩ 1,719,284	₩ (30,032)	₩ 1,689,252
Other receivables	171,971	(1,681)	170,290
Long-term trade receivables	23,712	(10,725)	12,987
Long-term other receivables	314,538	(49,068)	265,470
	₩ <u>2,229,505</u>	₩ <u>(91,506)</u>	₩ <u>2,137,999</u>

The Group sells trade receivables at a discount to the financial institutions for the periods ended December 31, 2016 and 2015. The amount of transferred financial assets that are not derecognized in their entirety as at December 31, 2016 is ₩ 658,902 million (2015: ₩ 549,968 million). The Group may retain an obligation to compensate a financial institution for debtors' failure to make payment when they become due, an obligation known as a 'recourse obligation'. Recourse obligations related to the sales of receivables with recourse are accounted for as collateralized borrowings (Notes 6, 20 and 38)

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

<i>(in millions of Korean won)</i>		2016		2015	
Other receivables					
Non-trade receivables	₩	165,003	₩	147,665	
Short-term loans		4,209		8,483	
Accrued income		9,552		8,165	
Deposits provided		13,369		5,977	
		<u>192,133</u>		<u>170,290</u>	
Long-term other receivables					
Long-term non-trade receivables		2		653	
Long-term loans		63,254		39,648	
Deposits provided		228,031		225,169	
		<u>291,287</u>		<u>265,470</u>	
	₩	<u>483,420</u>	₩	<u>435,760</u>	

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

	2016	2015
Discount rate	1.80% ~ 5.00%	2.50% ~ 5.00%

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

<i>(in millions of Korean won)</i>		2016					
Receivables not past due		Past due but not impaired				Impaired	Total
		Up to 3 months	4 to 6 months	7 to 12 months	Over 12 months		
Trade receivables	₩ 927,927	₩ 312,206	₩ 54,506	₩ 38,387	₩ 209,430	₩ 50,624	₩ 1,593,080
Other receivables	164,324	1,241	790	2,538	7,711	18,832	195,436
Long-term trade receivables	3,297	-	-	-	-	21,446	24,743
Long-term other receivables	277,039	-	-	90	10	78,116	355,255
	<u>₩ 1,372,587</u>	<u>₩ 313,447</u>	<u>₩ 55,296</u>	<u>₩ 41,015</u>	<u>₩ 217,151</u>	<u>₩ 169,018</u>	<u>₩ 2,168,514</u>

<i>(in millions of Korean won)</i>		2015					
Receivables not past due		Past due but not impaired				Impaired	Total
		Up to 3 months	4 to 6 months	7 to 12 months	Over 12 months		
Trade receivables	₩ 1,270,684	₩ 121,729	₩ 55,461	₩ 57,999	₩ 185,527	₩ 27,884	₩ 1,719,284
Other receivables	164,645	2,707	619	554	1,252	2,194	171,971
Long-term trade receivables	2,466	-	-	-	16	21,446	23,928
Long-term other receivables	255,916	2,152	1,339	1,021	8,159	49,096	317,683
	<u>₩ 1,693,711</u>	<u>₩ 126,588</u>	<u>₩ 57,419</u>	<u>₩ 59,574</u>	<u>₩ 194,954</u>	<u>₩ 100,620</u>	<u>₩ 2,232,866</u>

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

The individually impaired receivables are mainly related to the customers under unexpected economic difficulties, and part of trade receivables are expected to be collected. Other receivables, for which impairment loss were not recognized under the individual review, are collectively reviewed for impairment.

Changes in provision for impairment of trade and other receivables for the years ended December 31, 2016 and 2015, are as follows:

		2016					
<i>(in millions of Korean won)</i>		Beginning	Provision for impairment	Reversal	Changes in scope of consolidation	Others	Ending
Trade and long-term trade receivables		₩ 40,757	₩ 38,696	₩ -	₩ -	₩ (19,586)	₩ 59,867
Other receivables and long-term other receivables		50,749	14,745	(129)	-	(545)	64,820
		<u>₩ 91,506</u>	<u>₩ 53,441</u>	<u>₩ (129)</u>	<u>₩ -</u>	<u>₩ (20,131)</u>	<u>₩124,687</u>

		2015					
<i>(in millions of Korean won)</i>		Beginning	Provision for impairment	Reversal	Changes in scope of consolidation	Others	Ending
Trade and long-term trade receivables		₩ 63,584	₩ 3,975	₩ -	₩ 481	₩ (27,283)	₩ 40,757
Other receivables and long-term other receivables		30,318	4,082	(50)	(4,072)	20,471	50,749
		<u>₩ 93,902</u>	<u>₩ 8,057</u>	<u>₩ (50)</u>	<u>₩ (3,591)</u>	<u>₩ (6,812)</u>	<u>₩ 91,506</u>

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

The creation and release of provision for impaired trade receivables and other receivables have been included in 'selling and administrative expenses' (Note 32) and 'other income and other expenses' (Note 33) in the statements of profit or loss, respectively. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

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11. Other Financial Assets and Liabilities

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

<i>(in millions of Korean won)</i>	2016	2015
Other financial assets		
Loans and receivables	₩ 126,426	₩ 156,204
Available-for-sale financial assets	470,603	462,942
Derivative assets	6,131	890
	<u>603,169</u>	<u>620,036</u>
Less: Current portion	(50,326)	(70,232)
	<u>₩ 552,834</u>	<u>₩ 549,804</u>
Other financial liabilities		
Derivative liabilities	₩ 36,730	₩ 32,999
Less: Current portion	(29,504)	(24,815)
	<u>₩ 7,226</u>	<u>₩ 8,184</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Short-term financial instruments	₩ 45,586	₩ 48,519
Long-term financial instruments	80,840	107,685
	<u>₩ 126,426</u>	<u>₩ 156,204</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Equity securities		
Listed	₩ 238,772	₩ 257,902
Unlisted	37,750	60,760
Equity investment	170,826	137,453
Beneficiary certificates	22,566	6,664
Debt securities		
Government bond	689	163
	<u>470,603</u>	<u>462,942</u>
Less: Current portion	-	(21,713)
	<u>₩ 470,603</u>	<u>₩ 441,229</u>

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

(in millions of Korean won)

		2016			2015	
	Investee	Percentage of ownership (%)	Acquisition cost	Book value	Book value	Book value
Listed stock	Chin Hung International Inc. ¹	48.35	₩ 153,492	₩ 155,320	₩ 170,926	
Unlisted stock	OKSAN OCHANG Highway Corporation ²	30.00	14,970	14,970	14,970	
			₩ 168,462	₩ 170,290	₩ 185,896	

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

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

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

(in millions of Korean won)

	2016		2015	
Beginning balance	₩	462,942	₩	301,684
Acquisition		76,842		119,134
Disposals		(62,134)		(25,844)
Impairment loss of available-for-sale financial assets		(1,492)		(1,310)
Net gains (losses) transfer to equity		16,696		55,220
Others		(22,251)		14,058
Ending balance	₩	470,603	₩	462,942
Short-term available-for-sale financial assets	₩	-	₩	21,713
Long-term available-for-sale financial assets		470,603		441,229

Changes in unrealized gain or loss on valuation of available-for-sale financial assets according to valuation of their fair values for the years ended from December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	2016		2015	
Beginning balance	₩	(452)	₩	(39,068)
Gain(loss) on valuation		16,696		55,220
Tax effects and Non-controlling Interests		(2,294)		(16,604)
Ending balance	₩	13,950	₩	(452)

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

<i>(in millions of Korean won)</i>	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Current				
Forward exchange contracts	₩ 3,707	₩ 23,140	₩ -	₩ 22,328
Currency swaps	890	6,364	-	2,487
Other	143	-	-	-
	<u>4,740</u>	<u>29,504</u>	<u>-</u>	<u>24,815</u>
Non-current				
Forward exchange contracts	466	6,466	-	7,757
Currency swaps	-	-	15	427
Option	-	-	875	-
Other	925	760	-	-
	<u>1,391</u>	<u>7,226</u>	<u>890</u>	<u>8,184</u>
	<u>₩ 6,131</u>	<u>₩ 36,730</u>	<u>₩ 890</u>	<u>₩ 32,999</u>

12. Other Financial Business Assets

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

<i>(in millions of Korean won)</i>	2016	2015
Loans and receivables	₩ 2,049,066	₩ 2,017,542
Operating lease assets	42,079	40,714
	<u>₩ 2,091,145</u>	<u>₩ 2,058,256</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Loans and receivables	₩ 2,105,416	₩ 2,051,096
Less: Provision for impairment	(56,350)	(33,554)
	<u>₩ 2,049,066</u>	<u>₩ 2,017,542</u>

The aging analyses of loans and receivables as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016	2015
Up to 1 year	₩ 312,180	₩ 357,133
1 to 5 years	1,793,236	1,693,963
	<u>₩ 2,105,416</u>	<u>₩ 2,051,096</u>

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Movements on the provision for impairment of trade receivables for the years ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
Beginning balance	₩	33,554	₩	85,666
Provision for impairment		45,964		28,930
Write-off		(20,775)		(48,026)
Others		(2,393)		(33,016)
Ending balance	₩	<u>56,350</u>	₩	<u>33,554</u>

The future minimum lease receipts under non-cancellable operating lease agreements as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
Up to 1 year	₩	15,732	₩	14,553
1 to 5 years		12,827		14,010
	₩	<u>28,559</u>	₩	<u>28,563</u>

13. Other Assets

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

<i>(in millions of Korean won)</i>	2016		2015	
Other current assets				
Advance payments	₩	126,095	₩	115,182
Provision for impairment		(290)		(290)
Prepaid expenses		41,358		51,452
Other		1,989		-
		<u>169,152</u>		<u>166,344</u>
Other non-current assets				
Long-term prepaid expenses		28,426		19,672
Other investments		34,340		34,454
		<u>62,766</u>		<u>54,126</u>
	₩	<u>231,918</u>	₩	<u>220,470</u>

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14. Inventories

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

<i>(in millions of Korean won)</i>	2016		
	Acquisition cost	Provision	Net book amount
Merchandise	₩ 351,539	₩ (6,629)	₩ 344,910
Finished goods	419,082	(20,799)	398,283
Semi-finished goods	176,821	(3,654)	173,167
Work-in-process	102,506	-	102,506
Processing materials on trust	26	-	26
Raw materials	249,951	(7,938)	242,013
Sub-materials	43,937	-	43,937
Supplies	11,421	-	11,421
Packaging	8,441	-	8,441
Goods in transit	175,799	-	175,799
Cost accrued on construction contract	6,532	-	6,532
Temporary installations	65	-	65
Sites	25,945	(8,275)	17,670
	<u>₩ 1,572,065</u>	<u>₩ (47,295)</u>	<u>₩ 1,524,770</u>

<i>(in millions of Korean won)</i>	2015		
	Acquisition cost	Provision	Net book amount
Merchandise	₩ 187,386	₩ (632)	₩ 186,754
Finished goods	565,054	(42,589)	522,465
Semi-finished goods	201,253	(6,479)	194,774
Work-in-process	72,895	-	72,895
Processing materials on trust	21	-	21
Raw materials	277,953	(7,659)	270,294
Sub-materials	34,669	-	34,669
Supplies	9,436	-	9,436
Packaging	7,743	-	7,743
Goods in transit	137,116	-	137,116
Cost accrued on construction contract	7,880	-	7,880
Temporary installations	24	-	24
Finished housing	689	-	689
Sites	67,412	(13,888)	53,524
	<u>₩ ₩ 1,569,531</u>	<u>₩ (71,247)</u>	<u>₩ 1,498,284</u>

The cost of inventories recognized as expense and included in 'cost of sales' amounted to ₩ 6,054,103million (2015: ₩ 6,886,701 million) for the year ended December 31, 2016. The Group recognized ₩ 23,952 million (2015: provision for inventories amounting to ₩ 25,106 million) of reverse of provision for inventories, and the expense has been included in 'cost of sales' in the consolidated statements of profit or loss.

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15. Property, Plant and Equipment

Property, plant and equipment as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		
	Acquisition cost	Accumulated depreciation¹	Net book amount
Land	₩ 1,562,977	₩ -	₩ 1,562,977
Building	1,546,771	(452,205)	1,094,566
Structures	357,496	(99,673)	257,823
Machinery	6,303,220	(4,160,054)	2,143,166
Vehicles	50,089	(36,860)	13,229
Tool and equipment	538,413	(406,280)	132,133
Others	174,302	(39,455)	134,847
Construction in progress	487,344	-	487,344
Machinery in transit	18,937	-	18,937
	<u>₩ 11,039,549</u>	<u>₩ (5,194,527)</u>	<u>₩ 5,845,022</u>

<i>(in millions of Korean won)</i>	2015		
	Acquisition cost	Accumulated depreciation¹	Net book amount
Land	₩ 1,553,291	₩ -	₩ 1,553,291
Building	1,475,182	(408,952)	1,066,230
Structures	338,897	(92,810)	246,087
Machinery	5,871,741	(3,773,711)	2,098,030
Vehicles	46,022	(33,767)	12,255
Tool and equipment	510,014	(373,600)	136,414
Others	132,960	(38,352)	94,608
Construction in progress	419,372	-	419,372
Machinery in transit	2,556	-	2,556
	<u>₩ ₩ 10,350,035</u>	<u>₩ (4,721,192)</u>	<u>₩ 5,628,843</u>

¹ Accumulated impairment losses are included

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

(in millions of Korean won)	2016									
	Land	Building	Structure	Machinery	Vehicle	Tool and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning balance	₩1,553,291	₩ 1,066,230	₩ 246,087	₩ 2,098,030	₩ 12,255	₩ 136,414	₩ 94,608	₩ 419,372	₩ 2,556	₩ 5,628,843
Acquisition	7,998	22,987	2,111	37,662	3,427	26,511	4,898	639,902	130,221	875,717
Disposal	(1,493)	(24,449)	(1,811)	(9,445)	(877)	(3,426)	(3,093)	(1,949)	-	(46,543)
Depreciation and others ¹	-	(44,488)	(9,417)	(438,446)	(4,507)	(50,575)	(10,066)	(3)	-	(557,502)
Impairment loss ²	-	(11,886)	(1,423)	(25,448)	(6)	(425)	-	-	-	(39,188)
Transfers ³	2,279	92,841	25,115	488,606	2,814	23,994	47,891	(573,625)	(114,040)	(4,125)
Government grants received	-	(8,010)	-	(11,278)	-	(370)	-	-	-	(19,658)
Others (changes in exchange rate)	902	3,465	982	7,669	136	215	609	3,647	200	17,825
Changes in scope of consolidation	-	(2,124)	(3,821)	(4,184)	(13)	(205)	-	-	-	(10,347)
Ending balance	₩1,562,977	₩1,094,566	₩ 257,823	₩2,143,166	₩13,229	₩ 132,133	₩ 134,847	₩ 487,344	₩ 18,937	₩ 5,845,022

¹ Depreciation and others include ₩ 1,105 million of shrinkage loss from others and ₩ 1,772 million of supplies expenses.

² Due to the accumulated operating loss in the optical film segment, a separate cash-generating unit in the operating segment of chemicals, the Group recognized impairment loss, amounting to ₩ 23,798 million, as other expenses (Note 33).

³ Transfers include construction in progress, machinery in transit and investment property.

(in millions of Korean won)	2015									
	Land	Building	Structure	Machinery	Vehicle	Tool and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning balance	₩1,569,996	₩ 966,557	₩ 181,952	₩ 1,829,484	₩ 21,332	₩ 103,689	₩ 105,431	₩ 698,365	₩ 8,923	₩ 5,485,729
Acquisition	12,347	4,964	2,936	41,672	3,018	30,223	5,791	607,717	19,827	728,495
Disposal	(5,745)	(4,468)	(471)	(3,833)	(7,326)	(7,929)	(2,585)	(2,055)	-	(34,412)
Depreciation and others ¹	-	(49,822)	(10,191)	(388,083)	(6,671)	(43,834)	(11,209)	-	-	(509,810)
Impairment loss	-	-	-	(10,349)	-	(13)	-	-	-	(10,362)
Transfers ²	-	151,045	71,878	623,014	10,934	12,981	(78)	(870,580)	(26,341)	(27,147)
Government grants received	(85)	-	-	(546)	-	(621)	-	-	-	(1,252)
Others (changes in exchange rate)	(39,632)	(9,825)	(1,733)	1,240	158	(1,880)	24	(70)	147	(51,571)
Changes in scope of consolidation	16,410	7,779	1,716	5,431	(9,190)	43,798	(2,766)	(14,005)	-	49,173
Ending balance	₩1,553,291	₩ 1,066,230	₩ 246,087	₩ 2,098,030	₩ 12,255	₩ 136,414	₩ 94,608	₩ 419,372	₩ 2,556	₩ 5,628,843

¹ Depreciation and others include ₩ 390 million of shrinkage loss from others and ₩ 1,438 million of supplies expenses.

² Transfers include construction in progress, machinery in transit and investment property.

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Depreciation expense of ₩ 516,536 million (2015: ₩ 477,501 million) has been charged to 'cost of sales', ₩ 25,306 million (2015: ₩ 16,181 million) to 'selling and administrative expenses', and ₩ 12,783 million (2015: ₩ 14,301 million) to 'research and development expenses' for the year ended December 31, 2016.

The Group has capitalized borrowing costs amounting to ₩ 11,473 million (2015: ₩ 12,582 million) on qualifying assets for the year ended December 31, 2016. The capitalization rate of borrowings used to determine the amount of borrowing costs eligible for capitalization is 3.70 % (2015: 3.77%) for the year ended December 31, 2016.

Certain amount of property, plant and equipment are provided as collaterals to financial institutions for borrowings (Notes 20 and 38).

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16. Investment property

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

<i>(in millions of Korean won)</i>	2016		
	Acquisition cost	Accumulated depreciation¹	Net book value
Land	₩ 384,149	₩ (3,485)	₩ 380,664
Building	299,901	(51,742)	248,159
	<u>₩ 684,050</u>	<u>₩ (55,227)</u>	<u>₩ 628,823</u>

<i>(in millions of Korean won)</i>	2015		
	Acquisition cost	Accumulated depreciation¹	Net book value
Land	₩ 370,056	₩ (3,485)	₩ 366,571
Building	300,696	(47,263)	253,433
	<u>₩ 670,752</u>	<u>₩ (50,748)</u>	<u>₩ 620,004</u>

¹ Accumulated depreciation includes accumulated impairment loss.

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

<i>(in millions of Korean won)</i>	2016		
	Land	Building	Total
Beginning balance	₩ 366,571	₩ 253,433	₩ 620,004
Acquisition	3,366	960	4,326
Disposal	(4,208)	(2,408)	(6,616)
Depreciation	-	(5,106)	(5,106)
Transfer	14,935	1,280	16,215
Ending balance	<u>₩ 380,664</u>	<u>₩ 248,159</u>	<u>₩ 628,823</u>

<i>(in millions of Korean won)</i>	2015		
	Land	Building	Total
Beginning balance	₩ 344,344	₩ 249,512	₩ 593,856
Acquisition	-	9	9
Disposal	(12,201)	(5,080)	(17,281)
Depreciation	-	(5,250)	(5,250)
Transfer	34,428	14,242	48,670
Ending balance	<u>₩ 366,571</u>	<u>₩ 253,433</u>	<u>₩ 620,004</u>

During 2016, rental income from investment property is ₩ 38,192 million (2015: ₩ 20,275 million), and operating expenses (including depreciation) arising from investment property that generated rental income for the year are ₩ 21,937 million (2015: ₩ 16,840 million).

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17. Intangible Assets

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

<i>(in millions of Korean won)</i>	2016				
	Goodwill	Industrial property	Others	Memberships	Total
Beginning balance	₩ 130,329	₩ 7,680	₩ 297,661	₩ 16,986	₩ 452,656
Acquisition	-	1,677	30,842	768	33,287
Transfer ¹	-	261	4,744	(20)	4,985
Disposals	-	-	(2,497)	(5,701)	(8,198)
Amortization	-	(1,590)	(46,775)	(1)	(48,366)
Impairment loss	(1,364)	-	(12,876)	(933)	(15,173)
Others	658	(785)	1,552	13	1,438
Changes in scope of consolidation	-	-	(559)	-	(559)
Ending balance	₩ 129,623	₩ 7,243	₩ 272,092	₩ 11,112	₩ 420,070

¹ Transfers include transfer from or to intangible assets, etc.

<i>(in millions of Korean won)</i>	2015				
	Goodwill	Industrial property	Others	Memberships	Total
Beginning balance	₩ 129,225	₩ 5,424	₩ 258,624	₩ 16,495	₩ 409,768
Acquisition	-	3,746	25,036	349	29,131
Transfer ¹	-	-	24,207	(6)	24,201
Disposals	-	(8)	(6,958)	(2,168)	(9,134)
Amortization	(20)	(1,707)	(41,635)	(3)	(43,365)
Impairment loss	(220)	-	(13,114)	-	(13,334)
Others	1,195	-	(2,573)	29	(1,349)
Changes in scope of consolidation	149	225	54,074	2,290	56,738
Ending balance	₩ 130,329	₩ 7,680	₩ 297,661	₩ 16,986	₩ 452,656

¹ Transfers include transfer from or to intangible assets, etc.

Amortization of ₩ 20,267 million (2015: ₩ 12,765 million) is included in 'cost of sales', ₩ 1,236 million (2015: ₩ 209 million) in 'research and development expenses', and ₩ 26,863 million (2015: ₩ 30,391 million) is included in 'selling and administrative expenses' in the consolidated statements of profit or loss for the year ended December 31, 2016.

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Impairment tests for goodwill

Goodwill is monitored by the management at the operating segment or cash generating level. There is no changes in goodwill allocation method in 2016 and 2015. The following is a summary of goodwill allocation for each operating segment.

<i>(in millions of Korean won)</i>	2016					
	Beginning	Increase	Disposals	Impairment loss	Other adjustments	Ending
Fabric	₩ 6,654	₩ -	₩ -	₩ -	₩ -	₩ 6,654
Industrial Materials	44,041	-	-	(581)	567	44,027
Trading	2,216	-	-	-	-	2,216
Others	77,418	-	-	(783)	91	76,726
	<u>₩ 130,329</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ (1,364)</u>	<u>₩ 658</u>	<u>₩ 129,623</u>

<i>(in millions of Korean won)</i>	2015					
	Beginning	Increase	Disposals	Impairment loss	Other adjustments	Ending
Fabric	₩ 6,654	₩ -	₩ -	₩ -	₩ -	₩ 6,654
Industrial Materials	42,846	-	-	-	1,195	44,041
Trading	2,216	-	-	-	-	2,216
Others	77,509	-	-	(220)	129	77,418
	<u>₩ 129,225</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ (220)</u>	<u>₩ 1,324</u>	<u>₩ 130,329</u>

Goodwill impairment reviews are undertaken annually. Impairment test suggests that, the carrying value of other operating segments exceeded the value in use by ₩ 1,364 million and the amount exceeded carrying value is recognized as other expenses, net in the consolidated statements of profit or loss. The recoverable amounts have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Gross rate used for the projection of five-year period and perpetual growth rate used for the period after are stated below. The growth rates do not exceed the long-term average growth rate for the business in which the CGU operates.

The key assumptions used for value-in-use calculations in 2016 are as follows:

	Industrial materials ¹	Others
Gross margin	20.48%	44.19%
Growth rate ²	7.43%	3.21%
Perpetual growth rate ³	3.00%	1.00%
Pre-tax discount rate ⁴	12.0%~15.5%	11.37%

¹ It is applicable to particular cash-generating-unit in industrial materials department.

² The average revenue growth rate, which is computed based on historical growth rate, is used to forecast five years of cash flow.

³ Projected growth rate over five years.

⁴ Pre-tax discount rate applied to the cash flow projections.

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18. Investments in Associates

Details of associates of the Group as at December 31, 2016 and 2015, are as follows:

	Percentage of ownership ³		Location	Date of financial statements
	2016	2015		
Shinwha intertek Co., Ltd. ¹	15.26	15.26	Korea	December 31
E-pia Tech Co., Ltd. ⁵	-	21.30	Korea	December 31
Taebaek Wind Power Co., Ltd.	35.00	35.00	Korea	December 31
Pyeongchang Wind Power Co., Ltd. ⁴	42.00	42.00	Korea	December 31
Hyosung Information System Co., Ltd.	50.00	50.00	Korea	December 31
Hyosung Toyota Corp. ²	40.00	40.00	Korea	December 31
Hyosung ITX Co., Ltd.	34.99	34.99	Korea	December 31
Soonchon Eco Green Corporation	29.50	29.50	Korea	December 31
Smilegate 2016KVF	27.76	-	Korea	December 31
The Kwangjuilbo	49.00	49.00	Korea	December 31
Sumiden Hyosung Steel Cord (THAILAND) Co., Ltd. ⁵	-	30.00	Thailand	December 31
PT. Papua Agro Lestari ¹	15.00	15.00	Indonesia	December 31
PT. GELORA MANDIRI MEMBANGUN ¹	15.00	15.00	Indonesia	December 31

¹ Although the Group holds less than 20% of the associate's equity shares, the Group has significant influence over associate as the Group has involved in making decision and management communication.

² The equity method was discontinued as the book value of equity-method investments has decreased to zero.

³ Percentage of ownership is effective percentage of ownership that reflects the equity owned by subsidiaries.

⁴ The Group has pledged its shares of Pyeongchang Wind Power Co., Ltd. as collateral for borrowings of Pyeongchang Wind Power Co., Ltd. (Note 38).

⁵ All share of E-pia Tech Co., Ltd. and Sumiden Hyosung Steel Cord (Thailand) Co., Ltd. were disposed during 2016 and the Group recognized the disposal gain of ₩565 million as profit of associates accounted for using the equity method, net.

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

<i>(in millions of Korean won)</i>	Beginning	Acquisition (Disposal)	Valuation of equity method in 2016			Ending
			Gain or loss on equity method investments	Other comprehensive income or loss	Others ¹	
Shinwha intertek Co., Ltd.	₩ 14,404	₩ -	₩ 562	₩ 5	₩ (2)	₩ 14,969
Taebaek Wind Power Co., Ltd.	8,302	-	(1,652)	-	-	6,650
Pyeongchang Wind Power Co., Ltd.	5,715	-	(31)	-	(1)	5,683
Hyosung Information System Co., Ltd.	47,971	-	2,128	-	(3,518)	46,581
Hyosung ITX Co., Ltd.	17,616	-	2,637	(315)	(1,610)	18,328
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	179	(183)	2	2	-	-
PT. Papua Agro Lestari	6,598	4,111	(107)	165	-	10,767
PT. GELORA MANDIRI MEMBANGUN	4,407	-	79	58	-	4,544
The Kwangjuilbo	3,885	-	137	(15)	-	4,007
Others	1,864	2,774	(796)	1	1	3,844
	<u>₩ 110,941</u>	<u>₩ 6,702</u>	<u>₩ 2,959</u>	<u>₩ (99)</u>	<u>₩ (5,130)</u>	<u>₩ 115,373</u>

¹Includes dividends, remeasurement of net defined benefit liability and others.

<i>(in millions of Korean won)</i>	Beginning	Acquisition (Disposal)	Valuation of equity method in 2015			Ending
			Gain or loss on equity method investments	Other comprehensive income or loss	Others ¹	
Nautilus Hyosung Inc.	₩ 100,166	₩ (105,273)	₩ 4,429	₩ 557	₩ 121	₩ -
Shinwha intertek Co., Ltd.	17,676	(2,429)	(2,815)	1,972	-	14,404
Taebaek Wind Power Co., Ltd.	7,734	-	568	-	-	8,302
Pyeongchang Wind Power Co., Ltd.	6,204	-	(489)	-	-	5,715
Hyosung Information System Co., Ltd.	47,699	-	4,917	-	(4,645)	47,971
Hyosung ITX Co., Ltd.	13,570	-	2,670	2,322	(946)	17,616
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	3,161	-	(2,942)	(40)	-	179
PT. Papua Agro Lestari	3,876	-	41	2,681	-	6,598
PT. GELORA MANDIRI MEMBANGUN	4,695	-	(226)	(62)	-	4,407
The Kwangjuilbo	-	3,920	(35)	-	-	3,885
Others	7,711	(5,681)	(633)	-	467	1,864
	<u>₩ 212,492</u>	<u>₩ (109,463)</u>	<u>₩ 5,485</u>	<u>₩ 7,430</u>	<u>₩ (5,003)</u>	<u>₩ 110,941</u>

¹Includes dividends, remeasurement of net defined benefit liability and others.

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Summary of condensed financial information of major associates, details of adjustments from the book value of investments in associates, and dividends received from associates as at and for the years ended December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

	2016			
	Current assets	Non-current assets	Current liabilities	Non-current liabilities
Shinwha intertek Co., Ltd.	₩ 75,435	₩ 131,404	₩ 98,450	₩ 10,304
Taebaek Wind Power Co., Ltd.	6,408	36,622	2,405	21,624
Hyosung Information System Co., Ltd.	179,697	19,294	101,025	4,806
Hyosung ITX Co., Ltd.	94,334	32,289	66,960	7,218
PT. Papua Agro Lestari	39,518	23,538	3,007	9,544
PT. GELORA MANDIRI MEMBANGUN	4,197	39,101	1,083	34,723
Pyeongchang Wind Power Co., Ltd.	2,707	72,621	298	61,500
The Kwangjuilbo	3,191	19,475	10,224	4,265

(in millions of Korean won)

	2016			
	Revenue	Profit (loss) from continuing operations	Other comprehensive income	Total comprehensive income (loss)
Shinwha intertek Co., Ltd.	₩ 215,890	₩ (9,629)	₩ 6,808	₩ (2,821)
Taebaek Wind Power Co., Ltd.	5,741	(4,721)	-	(4,721)
Hyosung Information System Co., Ltd. ¹	226,817	4,256	-	4,256
Hyosung ITX Co., Ltd. ¹	342,188	7,537	9,089	16,626
PT. Papua Agro Lestari	7,591	(712)	2,133	1,421
PT. GELORA MANDIRI MEMBANGUN	2,601	528	133	661
Pyeongchang Wind Power Co., Ltd.	3,997	(75)	-	(75)
The Kwangjuilbo	8,103	280	-	280

¹The Group has received dividends ₩ 3,460 million and ₩ 439 million from Hyosung Information System Co., Ltd. and Hyosung ITX Co., Ltd., respectively for the year ended December 31, 2016.

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(in millions of Korean won)

	2015							
	Current assets		Non-current assets		Current liabilities		Non-current liabilities	
Shinwha intertek Co., Ltd.	₩	41,013	₩	134,506	₩	67,941	₩	13,200
Taebaek Wind Power Co., Ltd.		6,273		43,661		2,562		23,650
Hyosung Information System Co., Ltd.		184,135		16,127		99,605		4,714
Hyosung ITX Co., Ltd.		87,367		32,348		59,535		9,788
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.		18,445		72,514		90,236		173
PT. Papua Agro Lestari		16,567		10,163		3,424		594
PT. GELORA MANDIRI MEMBANGUN		4,318		28,629		9,404		16,965
Pyeongchang Wind Power Co., Ltd.		1,186		61,379		259		48,700
The Kwangjuilbo		2,870		19,329		9,914		4,357

(in millions of Korean won)

	2015			
	Revenue	Profit (loss) from continuing operations	Other comprehensive income	Total comprehensive income (loss)
Shinwha intertek Co., Ltd.	₩ 189,789	₩ (3,426)	₩ (1,425)	₩ (4,851)
Taebaek Wind Power Co., Ltd.	6,626	1,622	-	1,622
Hyosung Information System Co., Ltd. ¹	217,871	9,834	(432)	9,402
Hyosung ITX Co., Ltd. ¹	313,867	7,631	5,257	12,888
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	43,248	(9,843)	(132)	(9,975)
PT. Papua Agro Lestari	1,575	271	1,484	1,755
PT. GELORA MANDIRI MEMBANGUN	4,074	(1,506)	(433)	(1,939)
Pyeongchang Wind Power Co., Ltd.	-	(1,164)	-	(1,164)
The Kwangjuilbo	2,688	(72)	-	(72)

¹The Group has received dividends ₩ 4,325 million and ₩ 331 million from Hyosung Information System Co., Ltd. and Hyosung ITX Co., Ltd., respectively for the year ended December 31, 2016.

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

(in millions of Korean won)

	2016						
	Net assets (a)	Percentage of ownership (b)	Interests in net assets (axb)	Goodwill	Inter-group transactions	Others	Book amount
Shinwha intertek Co., Ltd.	₩ 98,086	15.26%	₩ 14,969	₩ -	₩ -	₩ -	₩ 14,969
Taebaek Wind Power Co., Ltd.	19,001	35.00%	6,650	-	-	-	6,650
Hyosung Information System Co., Ltd.	93,161	50.00%	46,581	-	-	-	46,581
Hyosung ITX Co., Ltd.	52,445	34.99%	18,351	-	-	(23)	18,328
PT. Papua Agro Lestari	50,505	15.00%	7,576	3,191	-	-	10,767
PT. GELORA MANDIRI MEMBANGUN	7,492	15.00%	1,124	3,420	-	-	4,544
Pyeongchang Wind Power Co., Ltd.	13,531	42.00%	5,683	-	-	-	5,683
The Kwangjuilbo	8,177	49.00%	4,007	-	-	-	4,007

(in millions of Korean won)

	2015						
	Net assets (a)	Percentage of ownership (b)	Interests in net assets (axb)	Goodwill	Inter-group transactions	Others	Book amount
Shinwha intertek Co., Ltd.	₩ 94,378	15.26%	₩ 14,404	₩ -	₩ -	₩ -	₩ 14,404
Taebaek Wind Power Co., Ltd.	23,722	35.00%	8,302	-	-	-	8,302
Hyosung Information System Co., Ltd.	95,943	50.00%	47,971	-	-	-	47,971
Hyosung ITX Co., Ltd.	50,392	34.99%	17,632	-	-	(16)	17,616
Sumiden Hyosung Steel Cord (Thailand) Co., Ltd.	550	30.00%	165	-	-	14	179
PT. Papua Agro Lestari	22,712	15.00%	3,407	3,191	-	-	6,598
PT. GELORA MANDIRI MEMBANGUN	6,578	15.00%	987	3,420	-	-	4,407
Pyeongchang Wind Power Co., Ltd.	13,605	42.00%	5,715	-	-	-	5,715
The Kwangjuilbo	7,928	49.00%	3,885	-	-	-	3,885

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Fair value of marketable investments in associates as at December 31, 2016 and 2015, is as follows:

<i>(in millions of Korean won, except per market price per share)</i>	2016			
	Number of shares	Market price per share <i>(in Korean won)</i>	Fair value	Book value
Shinwha intertek Co., Ltd.	4,446,227	₩ 3,675	₩ 16,340	₩ 14,969
Hyosung ITX Co., Ltd.	4,349,000	11,700	50,883	18,328

<i>(in millions of Korean won, except per market price per share)</i>	2015			
	Number of shares	Market price per share <i>(in Korean won)</i>	Fair value	Book value
Shinwha intertek Co., Ltd.	4,446,227	₩ 2,240	₩ 9,960	₩ 14,404
Hyosung ITX Co., Ltd.	4,349,000	14,900	64,800	17,616

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

<i>(In millions of Korean won)</i>	2016		2015	
	Unrecognized loss	Unrecognized accumulated losses	Unrecognized loss	Unrecognized accumulated losses
E-pia Tech.Co., Ltd.	₩ -	₩ -	₩ -	₩ 90
Hyosung Toyota Corp.	1,054	4,757	3,703	3,703

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19. Related Party Transactions

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

Associates

Location	Name of entity
Domestic	Soonchon Eco Green Corporation, Shinwha intertek Co., Ltd., The Kwangjuilbo, Taebaek Wind Power Co., Ltd., Pyeongchang Wind Power Co., Ltd., Hyosung Information System Co., Ltd., Hyosung Toyota Corp., Hyosung ITX Co., Ltd., Smilegate2016KVF
Asia	PT. Papua Agro Lestari, PT. Gelora Mandiri Membangun(GMM)

Other related parties

Location	Name of entity
Domestic	Galaxia Corporation, Galaxia device Co., Ltd., Galaxia Micropayment, Galaxia Electronics, Gongdeok Development Corporation, The Class Hyosung, The premium Hyosung Co., Ltd., Dong Ryung Co., Ltd., Shin Dong Jin Co., Ltd., ITX maketing, Trinity Asset Managemernt, Haengbokdoodrimi Co., Ltd. , Hyosung Premier Motors, D/BEST PARTNERS, A-SEUNG AUTOMOTIVE GROUP, and others
China	Tianjin Galaxia Device Electronics. Co., Ltd., Huizhou Galaxia Device Electronics. Co. Ltd., Qingdao Galaxia Device Electronics. Co., Ltd., SHINWHA INTERTEK (SUZHOU) CO.,LTD, DONGGUAN SHINWHA INTERTEK CORP and others
Asia	Shinwha Intertek Corp , Galaxia Japan and others
Europe	Shinwha Intertek Slovakia S.R.O and others
America	Galaxia America INC and others

Others¹

Location	Name of entity
Domestic	Gabi Inc., Galaxia SM, Galaxia Communications Co., Ltd., Shinsung Motors, IB Medianet, EveryShow, Chin Hung International Inc., Taeuk Construction Co., Ltd, and others
China	IB China. Ltd. and others
Asia	Galaxia Media, Inc and others
America	IB America, Inc. and others

¹ Listed above companies are not in the scope of related parties according to IAS 24 Related Party Disclosures, but belong to same large company group according to Monopoly Regulation and Fair Trade Act.

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Significant transactions with related parties

Significant transactions for the years ended December 31, 2016 and 2015, are as follows:

	2016			
	Revenue and others¹	Dividends	Purchases and others¹	Acquisition of fixed assets
<i>(in millions of Korean won)</i>				
Associates				
Hyosung ITX Co., Ltd.	₩ 12,526	₩ 439	₩ 5,522	₩ 380
Shinwha intertek Co., Ltd.	10,061	-	5	-
Hyosung Information System Co., Ltd.	246	3,460	502	1,073
Others	4,869	-	2,635	-
	<u>27,702</u>	<u>3,899</u>	<u>8,664</u>	<u>1,453</u>
Other related parties				
Huizhou Galaxia Device Electronics. Co. Ltd	21,364	-	88,092	222
Galaxia Electronics	1,782	-	35,440	5,358
Galaxia device Co., Ltd.	458	-	16,804	13
Gongdeok Development Corporation	-	-	8,904	-
Others	3,103	-	6,688	541
	<u>26,707</u>	<u>-</u>	<u>155,928</u>	<u>6,134</u>
Others				
Chin Hung International Inc.	22,982	-	51,803	62,265
Galaxia Communications Co., Ltd.	1,134	-	52	-
Others	-	-	1,182	102
	<u>24,116</u>	<u>-</u>	<u>53,037</u>	<u>62,367</u>
	<u>₩ 78,525</u>	<u>₩ 3,899</u>	<u>₩ 217,629</u>	<u>₩ 69,954</u>

¹ Revenue, rental income, interest income and others are included in revenue and others. Purchase of raw materials, export fees, service fees, interest expense and others are included in purchases and others.

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	2015			
	Revenue and others ¹	Dividends	Purchases and others ¹	Acquisition of fixed assets
<i>(in millions of Korean won)</i>				
Associates				
Nautilus Hyosung Inc.	₩ 5,516	₩ -	₩ 14,080	₩ 664
Pyeongchang Wind Power Co., Ltd.	24,800	-	-	-
Hyosung Information System Co., Ltd.	314	4,325	232	950
Hyosung ITX Co., Ltd.	11,210	331	6,342	30
Shinwha intertek Co., Ltd.	8,790	-	37	-
Others	5,208	403	8,791	147
	<u>55,838</u>	<u>5,059</u>	<u>29,482</u>	<u>1,791</u>
Other related parties				
Shin Dong Jin Co., Ltd.	-	-	9,132	-
Galaxia Electronics	13,620	-	9,726	2,620
Galaxia device Co., Ltd.	1,676	-	11,935	46
Gongdeok Development Corporation	704	-	8,360	-
Others	250	-	1,623	-
	<u>16,250</u>	<u>-</u>	<u>40,776</u>	<u>2,666</u>
Others				
Chin Hung International Inc.	24,882	-	150,003	69,386
Galaxia Communications Co., Ltd.	1,011	-	78	-
Others	168	-	50	68
	<u>26,061</u>	<u>-</u>	<u>150,131</u>	<u>69,454</u>
	<u>₩ 98,149</u>	<u>₩ 5,059</u>	<u>₩ 220,389</u>	<u>₩ 73,911</u>

¹ Revenue, rental income, interest income and others are included in revenue and others. Purchase of raw materials, export fees, service fees, interest expense and others are included in purchases and others.

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(in millions of Korean won)	2016			
	Trade receivables	Other receivables ¹	Trade payables	Other payables ¹
Associates				
The Kwangjuilbo	₩ -	₩ 7,482	₩ -	₩ 22
Shinwha intertek Co., Ltd.	4,806	2	-	102
Hyosung ITX Co., Ltd.	703	2	681	1,415
PT. GELORA MANDIRI MEMBANGUN	-	5,345	-	-
Others	2,350	118	235	313
	<u>7,859</u>	<u>12,949</u>	<u>916</u>	<u>1,852</u>
Other related parties				
Huizhou Galaxia Device Electronics. Co. Ltd	8,019	2,211	9,648	104
Galaxia Electronics	3,265	17	6,292	3,466
Shin Dong Jin Co., Ltd.	-	3,998	-	461
Gongdeok Development Corporation	-	4,637	-	7
Others	81	598	1,219	902
	<u>11,365</u>	<u>11,461</u>	<u>17,159</u>	<u>4,940</u>
Others				
Chin Hung International Inc.	1,915	48	16,762	29,665
Galaxia Communications Co., Ltd.	124	-	5	1,209
Others	-	-	29	254
	<u>2,039</u>	<u>48</u>	<u>16,796</u>	<u>31,128</u>
	<u>₩ 21,263</u>	<u>₩ 24,458</u>	<u>₩ 34,871</u>	<u>₩ 37,920</u>

¹ Non-trade receivables, loans, deposits provided and others are included in other receivables. Non-trade payables, deposit received and others are included in other payables.

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(in millions of Korean won)	2015			
	Trade receivables	Other receivables ¹	Trade payables	Other payables ¹
Associates				
Hyosung Information System Co., Ltd.	₩ 17	₩ 14	₩ 269	₩ 558
Shinwha intertek Co., Ltd.	2,038	-	-	-
PT. GELORA MANDIRI MEMBANGUN	-	5,183	-	-
The Kwangjuilbo	-	7,149	-	-
Hyosung Toyota Corp.	1,759	-	-	-
Others	1,801	-	1,531	648
	<u>5,615</u>	<u>12,346</u>	<u>1,800</u>	<u>1,206</u>
Other related parties				
Shin Dong Jin Co., Ltd.	-	5,627	503	48
Gongdeok Development Corporation	-	4,491	-	16
Galaxia Electronics	2,888	31	3,905	149
IB Worldwide Inc.	-	-	3,422	143
Others	348	665	2,090	7
	<u>3,236</u>	<u>10,814</u>	<u>9,920</u>	<u>363</u>
Others				
Chin Hung International Inc.	13,373	258	25,415	36,573
Galaxia Communications Co., Ltd.	29	-	2	622
Others	23	1	1	-
	<u>13,425</u>	<u>259</u>	<u>25,418</u>	<u>37,195</u>
	<u>₩ 22,276</u>	<u>₩ 23,419</u>	<u>₩ 37,138</u>	<u>₩ 38,764</u>

¹ Non-trade receivables, loans, deposits provided and others are included in other receivables. Non-trade payables, deposit received and others are included in other payables.

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

(in millions of Korean won)

	2016					
	Loan transactions					Equity contributions in cash
	Beginning balance	Loan	Collection	Translation exchange differences	Ending balance	
Associates						
PT. Gelora Mandiri Membangun	5,183	-	-	162	5,345	-
The Kwangjuilbo	7,149	-	-	-	7,149	-
Papua Agro Lestari	-	-	-	-	-	4,111
Other related parties						
A-seung Automotive Group	-	100	-	-	100	-
The Class Hyosung	-	174	(130)	-	44	-

The Group has received ₩ 92 million as a borrowing from Hyosung ITX Co., Ltd during 2016 and made repayment it. The balance of borrowings as at December 31, 2016 is nil.

(in millions of Korean won)

	2015					
	Loan transactions					Equity contributions in cash
	Beginning balance	Loan	Collection	Translation exchange differences	Ending balance	
Associates						
PT. Gelora Mandiri Membangun	2,498	2,328	-	357	5,183	-
The Kwangjuilbo	-	7,149	-	-	7,149	3,920
Other related parties						
OpCo GmbH ¹	6,673	-	(6,980)	307	-	-
Hyosung Toyota Corp.	3,850	-	(3,850)	-	-	-
The Premium Hyosung Co., Ltd.,	4,000	-	(4,000)	-	-	-
The Class Hyosung	-	10	(10)	-	-	-

¹ The Group have written-off loan receivable due to liquidations of OpCo GmbH during 2015.

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The compensation paid or payable to key management for employee services as at December 31, 2016 and 2015, consists of:

<i>(in millions of Korean won)</i>	2016		2015	
Short-term employee benefits	₩	9,098	₩	8,575
Post-employment benefits		980		1,148
	₩	<u>10,078</u>	₩	<u>9,723</u>

Details of collateral provided by the Group as at December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	Carrying amount	Secured amount	Secured asset	Details	Amount of borrowings	Creditor
Pyeongchang Wind Power Co., Ltd.	₩ 6,510	₩ 6,510	Equity securities	Facility loan and others	₩ 61,500	Woori bank and others
Hyosung Toyota Corp. ¹	31,764	3,200	Plant,	Operating capital and others	-	Toyota Motor Korea Co., Ltd.
Soonchon Eco Green Corporation	48,391	48,391	Financial asset	Operating capital and others	42,991	IBK and others
Chin Hung International Inc. ²	155,320	155,320	Equity securities	-	-	The Committee of Creditor Banks of Chin Hung International Inc.
	<u>₩ 241,985</u>	<u>₩ 213,421</u>			<u>₩ 104,491</u>	

¹ Certain amounts of the property, plant and equipment are provided as collaterals to TOYOTA Motor KOREA Co., Ltd. in relation to the inventory financing of Hyosung Toyota Corp. Also, the Group provides capital supplement agreement of ₩3,000 million for borrowing of Hyosung Toyota Corp. (Notes 15 and 38).

² The Equity shares of Chin Hung International Inc. are provided as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. (Notes 11 and 38).

Chin Hung International Inc. provides its shares of Somesevit Corporation as collateral for the Group relating to Somesevit Corporation's borrowing of ₩ 79,900 million (Note 38).

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20. Borrowings

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

<i>(in millions of Korean won)</i>	2016		2015	
Borrowings				
Short-term borrowings	₩	2,738,095	₩	3,360,186
Current portion of long-term borrowings		1,642,329		1,362,187
		4,380,424		4,722,373
Long-term borrowings				
Long-term borrowings		1,434,308		1,877,396
Debentures		1,227,863		1,178,537
		2,662,171		3,055,933
	₩	7,042,595	₩	7,778,306

Above long-term borrowings are subject to installment repayment or lump-sum repayment at maturity date. Borrowings are collateralized with the Group's available-for-sale financial assets and property, plant and equipment, and others (Notes 11, 15 and 38).

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

<i>(in millions of Korean won)</i>	Creditor	Interest rate as at Dec. 31, 2016 (%)	2016		2015	
Bank overdrafts	Commerzbank AG	3.98	₩	4,874	₩	10,000
General loan	Woori Bank and others	1.20 ~ 10.09		1,377,619		1,684,854
Collateralized borrowings ¹	Woori Bank and others	1.70 ~ 3.30		658,902		701,647
Other bill discount and others	Woori Bank and others	0.66 ~ 6.90		696,700		963,685
			₩	2,738,095	₩	3,360,186

¹ Trade receivable denominated in foreign currency of the Group have been discounted to financial institutions, and the transaction is accounted as a collateralized borrowing. (Notes 6 and 38)

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

<i>(in millions of Korean won)</i>	Creditor	Interest rate as at Dec. 31, 2016 (%)	2016	2015
Hyosung Corp.				
Local currency	Korea Development Bank and others	1.20 ~ 4.12	₩ 692,699	₩ 1,108,026
Foreign currency	Korea Development Bank and others	1.94 ~ 3.32	246,726	262,044
Subsidiaries				
Local currency	The Export-Import Bank of Korea and others	2.69 ~ 6.90	520,517	766,641
Foreign currency	The Export-Import Bank of Korea and others	1.88 ~ 4.24	800,423	426,877
			2,260,365	2,563,588
	Less: Current portion		(825,529)	(686,187)
	Present value discounts		(528)	(5)
			₩ 1,434,308	₩ 1,877,396

Above long-term borrowings are subject to installment repayment or lump-sum repayment at maturity date. Borrowings are collateralized with the Group's available-for-sale financial assets and property, plant and equipment, and others (Notes 11, 15 and 38).

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

<i>(in millions of Korean won)</i>	Maturity date	Interest rate as at Dec. 31, 2016 (%)	2016	2015
Hyosung Corp.				
245-2 nd Public subscription bond	-	-	₩ -	₩ 60,000
246-2 nd Public subscription bond	-	-	-	60,000
248-2 nd Public subscription bond	-	-	-	50,000
251-2 nd Public subscription bond	2017-02-07	4.71	60,000	60,000
253-1 st Public subscription bond	-	-	-	90,000
253-2 nd Public subscription bond	2018-02-21	3.75	30,000	30,000
254 th Private bond	2017-05-02	4.50	30,000	30,000
255 th Private bond	-	-	-	30,000
256-1 st Public subscription bond	2017-02-25	3.05	50,000	50,000
256-2 nd Public subscription bond	2018-02-25	3.28	100,000	100,000
256-3 rd Public subscription bond	2020-02-25	3.76	50,000	50,000
257-1 st Public subscription bond	2018-06-26	2.90	130,000	130,000
257-2 nd Public subscription bond	2020-06-26	3.97	70,000	70,000
258 th Private bond	2018-12-29	0.70	31,104	29,160
259-1 st Public subscription bond	2019-04-25	2.78	102,000	-
259-2 nd Public subscription bond	2021-04-25	3.43	98,000	-
260-1 st Public subscription bond	2019-12-27	2.70	120,000	-
260-2 nd Public subscription bond	2021-12-28	3.44	30,000	-

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	Maturity date	Interest rate as at Dec. 31, 2016 (%)	2016	2015
Hyosung Capital Co., Ltd.				
86 th Debenture	2017-02-24	5.25	30,000	30,000
90-2 nd Debenture	2017-05-25	4.55	30,000	30,000
95 th Debenture	2017-09-26	4.14	10,000	10,000
100 th Debenture	-	-	-	20,000
101 st Debenture	-	-	-	40,000
102 nd Debenture	-	-	-	20,000
103 rd Debenture	-	-	-	20,000
104 th Debenture	-	-	-	20,000
105 th Debenture	2017-04-04	4.41	20,000	20,000
110 th Debenture	2017-12-31	4.50	15,000	15,000
112 th Debenture	-	-	-	10,000
113-1 st Debenture	-	-	-	10,000
114 th Debenture	-	-	-	15,000
115 th Debenture	-	-	-	10,000
116 th Debenture	-	-	-	50,000
117 th Debenture	2017-04-10	3.55	20,000	20,000
118-1 st Debenture	-	-	-	20,000
118-2 nd Debenture	2017-05-21	3.50	5,000	5,000
119 th Debenture	2017-05-26	3.51	20,000	20,000
120 th Debenture	-	-	-	20,000
121-1 st Debenture	-	-	-	15,000
121-2 nd Debenture	2017-06-22	3.40	20,000	20,000
122-1 st Debenture	-	-	-	10,000
122-2 nd Debenture	2017-06-29	3.44	10,000	10,000
123 rd Debenture	-	-	-	10,000
124 th Debenture	-	-	-	20,000
125 th Debenture	-	-	-	10,000
126 th Debenture	2017-09-30	3.50	20,000	20,000
127 th Debenture	2017-10-29	3.61	20,000	20,000
128 th Debenture	2018-12-31	4.19	3,000	3,000
129 th Debenture	2018-03-28	4.01	20,000	-
130 th Debenture	2018-04-23	4.12	20,000	-
132 nd Debenture	2017-06-07	3.99	8,000	-
133-1 st Debenture	2017-06-14	3.89	20,000	-
133-2 nd Debenture	2017-06-14	3.89	9,000	-
134 th Debenture	2017-06-16	3.95	29,000	-
135 th Debenture	2017-03-23	3.77	8,000	-
136 th Debenture	2018-06-24	4.08	20,000	-
137 th Debenture	2018-06-28	4.00	20,000	-
138 th Debenture	2017-07-04	3.85	14,000	-
139 th Debenture	2018-07-18	4.00	10,000	-
141-1 st Debenture	2017-08-01	3.80	20,000	-
141-2 nd Debenture	2017-02-01	3.40	5,000	-
142 nd Debenture	2017-11-04	3.85	10,000	-
143 rd Debenture	2017-08-08	3.80	10,000	-
152-1 st Debenture	2017-10-11	3.85	5,000	-
152-2 nd Debenture	2018-01-11	3.97	15,000	-
153-1 st Debenture	2017-12-28	3.90	20,000	-
153-2 nd Debenture	2018-01-14	3.92	15,000	-
156 th Debenture	2018-02-19	3.95	15,000	-

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	Maturity date	Interest rate as at Dec. 31, 2016 (%)	2016	2015
157-1 st Debenture	2017-11-22	3.79	5,000	-
157-2 nd Debenture	2018-02-22	3.95	15,000	-
158 th Debenture	2018-02-23	3.95	20,000	-
160 th Debenture	2018-06-05	3.99	17,000	-
161 st Debenture	2018-03-13	3.85	5,000	-
162 nd Debenture	2017-12-19	3.70	10,000	-
140 th Debenture	2017-01-23	3.45	22,000	-
144 th Debenture	2017-11-12	3.85	10,000	-
145-1 st Debenture	2017-08-22	3.86	30,000	-
145-2 nd Debenture	2017-09-22	3.87	14,000	-
145-3 rd Debenture	2017-11-20	3.85	10,000	-
146-1 st Debenture	2017-11-30	3.81	10,000	-
146-2 nd Debenture	2018-01-30	3.83	3,000	-
146-3 rd Debenture	2018-02-28	3.90	15,000	-
147-1 st Debenture	2017-09-05	3.83	10,000	-
147-2 nd Debenture	2017-11-06	3.85	10,000	-
147-3 rd Debenture	2018-03-05	3.90	10,000	-
148 th Debenture	2018-03-09	3.90	15,000	-
149 th Debenture	2018-03-20	3.90	18,000	-
150-1 st Debenture	2017-09-29	3.90	20,000	-
150-2 nd Debenture	2018-03-30	4.01	20,000	-
151 st Debenture	2018-04-05	3.90	15,000	-
154-1 st Debenture	2017-10-26	3.79	20,000	-
154-2 nd Debenture	2018-01-26	3.95	20,000	-
155-1 st Debenture	2017-05-02	3.60	6,000	-
155-2 nd Debenture	2018-02-02	3.95	5,000	-
159 th Debenture	2017-11-28	3.79	10,000	-
163 rd Debenture	2017-12-22	3.70	12,000	-
10 th ABS	-	-	-	10,000
11 th ABS	-	-	-	23,000
12 th ABS	-	-	-	28,000
13 th ABS	-	-	-	35,000
14 th ABS	-	-	-	60,000
15 th ABS	-	-	-	45,000
17 th ABS	-	-	-	125,000
18 th ABS	2017-09-11	3.80	25,000	25,000
19 th ABS	2017-09-26	2.16	10,000	110,000
20 th ABS	2017-01-15	2.22	10,000	-
20 th ABS	2017-03-15	2.26	10,000	-
20 th ABS	2017-06-15	2.37	10,000	-
20 th ABS	2017-09-15	2.39	10,000	-
20 th ABS	2017-12-15	2.41	10,000	-
22 nd ABS	2018-01-26	2.08	45,000	-
24 th ABS	2018-11-16	2.09	110,000	-
Asset Backed Short-Term Bond	2017-01-06	2.55	8,800	-
Asset Backed Short-Term Bond	2017-01-06	2.55	4,000	-
Asset Backed Short-Term Bond	2017-03-02	2.50	2,000	-

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	Maturity date	Interest rate as at Dec. 31, 2016 (%)	2016	2015
Hana HS 1st co., Ltd¹				
Asset backed securities (ABS)	-	-	-	15,000
Subordinated debenture	-	-	-	100
Subordinated debenture	-	-	-	100
			2,048,904	1,858,360
Less: Current portion			(816,800)	(676,000)
Discount on bonds payable			(4,241)	(3,823)
			₩ 1,227,863	₩ 1,178,537

¹ Hana HS 1st Co., Ltd. was excluded from the consolidation during 2016.

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21. Trade and Other Payables

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

<i>(in millions of Korean won)</i>	2016		2015	
Trade payables	₩	1,072,264	₩	956,649
Other payables		714,253		534,730
Long-term other payables		376,166		367,690
	₩	<u>2,162,683</u>	₩	<u>1,859,069</u>

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

<i>(in millions of Korean won)</i>	2016		2015	
Other payables				
Non-trade payables	₩	517,983	₩	330,600
Accrued expenses		112,127		112,273
Dividend payables		-		166
Withholdings		55,782		72,327
Deposits received		28,361		19,364
		<u>714,253</u>		<u>534,730</u>
Long-term other payables				
Non-trade payables		23,656		18,870
Accrued expenses		6,488		5,946
Deposits received		346,022		342,874
		<u>376,166</u>		<u>367,690</u>
	₩	<u>1,090,419</u>	₩	<u>902,420</u>

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

	2016	2015
Discount rate	1.80%~5.00%	2.50% ~ 5.00%

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22. Post-employment benefits

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

<i>(in millions of Korean won)</i>	2016		2015	
Present value of defined benefit obligations	₩	437,373	₩	394,832
Fair value of plan assets ¹		(393,874)		(359,266)
Net defined benefit liabilities	₩	<u>43,499</u>	₩	<u>35,566</u>

¹ The contributions to the National Pension Fund of ₩ 497 million are included in the fair value of plan assets as at December 31, 2016 (2015: ₩519 million).

The amounts recognized in the consolidated statements of profit or loss for the years ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
Current service cost	₩	60,836	₩	57,743
Interest expenses		8,537		8,410
Interest income		(10,143)		(9,422)
Past service cost and gains(losses) arising from settlements		-		(1,965)
	₩	<u>59,230</u>	₩	<u>54,766</u>

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

<i>(in millions of Korean won)</i>	2016		2015	
Cost of sales	₩	34,965	₩	29,576
Selling and administrative expenses		21,307		21,797
Research and development expenses		2,958		3,393
	₩	<u>59,230</u>	₩	<u>54,766</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Beginning balance	₩ 394,832	₩ 318,690
Current service cost	60,836	57,743
Interest expenses	8,537	8,410
Past service cost and gain (loss) arising from settlements	-	(1,965)
Benefits payment	(26,689)	(37,163)
Remeasurements:		
Changes in demographic assumptions	1,019	13,833
Changes in financial assumptions	(6,076)	19,467
Experience adjustments	4,465	(11,798)
Transfer in (out) of associates	(177)	332
Changes in scope of consolidation	-	27,868
Others (changes in exchange rate and others)	626	(585)
Ending balance	<u>₩ 437,373</u>	<u>₩ 394,832</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Beginning balance	₩ 359,266	₩ 265,587
Interest income	10,143	9,422
Employer contribution	51,491	92,808
Benefits payments	(21,581)	(25,819)
Effect of settlement of the Policy	-	85
Remeasurements	(4,377)	(5,068)
Increase (decrease) due to changes in scope of consolidation	-	22,205
Others (changes in exchange rate and others)	(1,068)	46
Ending balance	<u>₩ 393,874</u>	<u>₩ 359,266</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Deposits	₩ 293,218	₩ 239,331
Debt instruments	100,656	119,935
	<u>₩ 393,874</u>	<u>₩ 359,266</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Before income tax effects	₩ (3,784)	₩ (26,570)
Income tax effects	970	7,481
After income tax effects	<u>₩ (2,814)</u>	<u>₩ (19,089)</u>

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

	2016	2015
Discount rate	2.82%	2.76%
Salary growth rate	2.67%	2.65%

The sensitivity of the defined benefit liability as at December 31, 2016, to changes in the weighted principal assumptions is:

	Changes in principal assumption	Effect on defined benefit liability
Discount rate	1.0% increase/decrease	8.2% decrease/9.8% increase
Salary growth rate	1.0% increase/decrease	9.7% increase/8.3% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit liability to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit liabilities recognized on the consolidated statement of financial position.

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

The Group reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund. Expected contributions to post-employment benefit plans for the year ended December 31, 2017, are ₩ 49,918 million.

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

<i>(in millions of Korean won)</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years¹	Total
Pension benefits	₩ 20,724	₩ 24,329	₩ 81,555	₩ 799,479	₩ 926,087

¹The amount above includes executives and temporary employees.

Recognized expense related to the defined contribution plan for the year ended December 31, 2016, is ₩ 5,471 million (2015: ₩ 3,328 million).

23. Tax Expense and Deferred Tax

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

<i>(in millions of Korean won)</i>	2016	2015
Current tax:		
Current tax on profits for the year	₩ 243,586	₩ 155,373
Adjustments in respect of prior years	11,763	(9,869)
Total current tax	<u>255,350</u>	<u>145,504</u>
Deferred tax :		
Origination and reversal of temporary differences	(34,243)	(74,093)
Impact of change in tax rate	5	(12)
Total deferred tax	<u>(34,238)</u>	<u>(74,105)</u>
Income tax expense	<u>₩ 221,112</u>	<u>₩ 71,399</u>

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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:

<i>(in millions of Korean won)</i>	2016		2015	
Profit before income tax	₩	696,514	₩	597,290
Tax calculated at domestic tax rates applicable to profits in the respective countries		203,408		159,539
Tax effects of:				
Income not subject to tax		(5,548)		(14,422)
Expenses not deductible for tax purposes		27,516		27,026
Adjustment in respect of prior year		11,763		(9,869)
Tax credits		(38,099)		(43,853)
Others		22,067		(42,797)
Impact of change in the tax rate		5		(4,225)
Income tax expense	₩	221,112	₩	71,399

The income tax effects related to components of the other comprehensive income (expenses) for the years ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Gain (loss) on valuation of available-for-sale financial assets	₩ 20,375	₩ (6,425)	₩ 13,950	₩ 3,679	₩ (4,131)	₩ (452)
Remeasurements of net defined benefit liabilities	(48,306)	20,515	(27,791)	(44,522)	19,545	(24,977)
Gain (loss) on valuation of derivatives	809	(196)	613	809	(196)	613
Change in equity from applying equity method	1,142	2,456	3,598	1,241	2,468	3,709
Cumulative effect of foreign currency translation	22,165	(5,364)	16,801	1,019	(246)	773

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

<i>(in millions of Korean won)</i>	2016	2015
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 293,084	₩ 243,081
Deferred tax asset to be recovered within 12 months	46,288	62,000
	<u>339,372</u>	<u>305,081</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(537,706)	(517,247)
Deferred tax liability to be recovered within 12 months	14,980	2,970
	<u>(522,726)</u>	<u>(514,277)</u>
Deferred tax assets (liabilities), net	<u>₩ (183,354)</u>	<u>₩ (209,196)</u>

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

<i>(in millions of Korean won)</i>	2016	2015
Beginning balance	₩ (209,196)	₩ (264,240)
Tax charged to the statements of profit or loss	34,238	74,105
Tax charged (credited) to components of other comprehensive income	(13,166)	(9,189)
Translation exchange difference	4,770	(756)
Changes in scope of consolidation	-	(9,116)
Ending balance	<u>₩ (183,354)</u>	<u>₩ (209,196)</u>

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Changes in deferred income tax assets and liabilities for the years ended December 31, 2016 and 2015, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

<i>(in millions of Korean won)</i>	2016			
	Beginning	Statements of profit or loss	Other comprehensive income	Ending
Deferred tax liabilities				
Gains on revaluation of land	₩ (285,743)	₩ -	₩ -	₩ (285,743)
Investments in associates	(38,836)	(11,362)	(9,213)	(59,411)
Defined benefit pension plan assets	(76,270)	(7,509)	13	(83,766)
Reserve for research and human resource development	(23,760)	11,293	-	(12,467)
Gain (loss) from fire insurance policy	(546)	-	-	(546)
Others	(84,761)	4,885	(917)	(80,793)
	(509,916)	(2,693)	(10,117)	(522,726)
Deferred tax assets				
Available-for-sale financial assets	87,211	3,888	(1,342)	89,757
Provision for severance pension benefits	78,901	8,188	949	88,038
Provision for impairment	19,461	5,524	-	24,985
Government grants	6,371	1,362	-	7,733
Loss on valuation of inventories	6,916	6,426	-	13,342
Impairment loss on property, plant and equipment	11,214	(3,552)	-	7,662
Provision for guarantees	1,760	(1,536)	-	224
Accrued compensated absences	1,584	583	-	2,167
Provision for construction loss	4,318	(760)	-	3,558
Long-term employment allowance	1,428	123	-	1,551
Provision for warranties	10,096	1,505	-	11,601
Others	71,460	15,180	2,114	88,754
	300,720	36,931	1,721	339,372
	₩ (209,196)	₩ 34,238	₩ (8,396)	₩ (183,354)

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	2015				
	Beginning	Statement of profit or loss	Other comprehensive income	Changes in scope of consolidation	Ending
<i>(in millions of Korean won)</i>					
Deferred tax liabilities					
Gains on revaluation of land	₩ (285,149)	₩ (622)	₩ 28	₩ -	₩ (285,743)
Investments in associates	(86,606)	48,033	(263)	-	(38,836)
Defined benefit pension plan assets	(63,361)	(13,885)	-	976	(76,270)
Reserve for research and human resource development	(34,247)	10,487	-	-	(23,760)
Gain (loss) from fire insurance policy	(1,071)	525	-	-	(546)
Others	(80,243)	8,724	(36)	(13,206)	(84,761)
	<u>(550,677)</u>	<u>53,262</u>	<u>(271)</u>	<u>(12,230)</u>	<u>(509,916)</u>
Deferred tax assets					
Available-for-sale financial assets	100,340	(2,643)	(10,527)	41	87,211
Provision for severance pension benefits	66,744	6,126	5,327	704	78,901
Provision for impairment	17,253	2,208	-	-	19,461
Government grants	9,559	(3,188)	-	-	6,371
Loss on valuation of inventories	5,480	2,293	-	(857)	6,916
Impairment loss on property, plant and equipment	8,908	2,079	-	227	11,214
Provision for guarantees	8,312	(6,552)	-	-	1,760
Accrued compensated absences	4,463	(992)	(2,122)	235	1,584
Provision for construction loss	1,857	2,461	-	-	4,318
Long-term employment allowance	1,418	20	-	(10)	1,428
Provision for warranties	8,824	1,048	-	224	10,096
Others	53,279	17,983	(2,352)	2,550	71,460
	<u>286,437</u>	<u>20,843</u>	<u>(9,674)</u>	<u>3,114</u>	<u>300,720</u>
	<u>₩ (264,240)</u>	<u>₩ 74,105</u>	<u>₩ (9,945)</u>	<u>₩ (9,116)</u>	<u>₩ (209,196)</u>

The ability to realize deferred tax asset depends on various components; such as, the Group's ability to generate taxable income for period of the temporary difference realization, general economic environment and industrial expectation, and others. The Group periodically assesses its ability to realize deferred tax assets, and as at December 31, 2016, the Group recognized deferred tax assets for all deductible temporary difference except for the difference relating to investment in associates, which are unrealizable, amounted to ₩ 641,990 million (2015: ₩ 611,603 million)

Deferred income tax assets are recognized for tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of ₩ 63,888 million (2015: ₩ 53,813 million). Unrecognized tax loss carryforwards expire through 2026.

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24. Other Liabilities

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

<i>(in millions of Korean won)</i>	2016		2015	
Other current liabilities				
Advances	₩	367,731	₩	309,720
Unearned revenues		20,241		19,039
Provision ¹		50,178		761
		438,150		329,520
Other non-current liabilities				
Long-term advances		17,106		19,023
Government grants		-		22,272
Provision ¹		55,709		61,965
		72,815		103,260
	₩	510,965	₩	432,780

¹The Group accrued provision for warranties in relation to construction contract for the foreseeable expenses; such as, defect repairs based on past experience. The Group also accrued provision for guarantees for the foreseeable expenses relating to PF guarantees (Note 38).

Changes in the Group's provision for the years ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016			
	Provision for warranties	Provision for guarantees	Others	Total
Beginning balance	₩ 40,693	₩ -	₩ 22,033	₩ 62,726
Increase	31,137	1,164	56,301	88,602
Decrease	(21,308)	-	(24,133)	(45,441)
Ending balance	₩ 50,522	₩ 1,164	₩ 54,201	₩ 105,887
<i>(in millions of Korean won)</i>	2015			
	Provision for warranties	Provision for guarantees	Others	Total
Beginning balance	₩ 34,879	₩ 1,747	₩ 7,718	₩ 44,344
Increase	6,981	-	40,466	47,447
Decrease	(1,167)	(1,747)	(26,151)	(29,065)
Ending balance	₩ 40,693	₩ -	₩ 22,033	₩ 62,726

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25. Capital Stock

The Company is authorized to issue 200,000 thousand shares with the par value per share of ₩ 5,000. As at December 31, 2016, the Company has issued 35,117,455 shares of common stock. There is no change in capital stock for the year ended December 31, 2016.

26. Retained Earnings

Retained earnings as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
Legal reserve ¹	₩	42,402	₩	30,758
Discretionary reserve				
Research and development reserves ²		96,667		140,000
Facility reserves		2,121,000		1,905,000
Retained earnings before appropriation		736,191		584,688
	₩	2,996,260	₩	2,660,446

¹ The Commercial Code of the Republic of Korea requires the Group to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued capital stock. The reserve is not available for cash dividends payment, but may be transferred to capital stock or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned 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).

² The Group appropriates a certain portion of its retained earnings as a reserve for research and development which are provided in order to obtain tax benefits under the Special Tax Treatment Control Law. Among these reserves, the reserved amount according to the terms of related tax laws may be transferred to discretionary reserve and distributed as dividends.

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

<i>(in millions of Korean won)</i>	2016		2015	
Beginning balance	₩	2,660,446	₩	2,256,086
Profit for the year		455,526		492,691
Remeasurements of defined benefit liability		(1,618)		(18,185)
Remeasurements of defined benefit liability of associates		(295)		(880)
Dividends		(116,440)		(66,537)
Others		(1,359)		(2,729)
Endings balance	₩	2,996,260	₩	2,660,446

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27. Other Components of Equity

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

<i>(in millions of Korean won)</i>	2016		2015	
Other capital surplus	₩	317,532	₩	322,699
Treasury shares ¹		(34,204)		(34,204)
Gain (loss) on valuation of available-for-sale financial assets		13,950		(452)
Gain (loss) on valuation of derivatives		613		613
Change in equity from applying the equity method		3,598		3,709
Cumulative effect of foreign currency translation		16,801		772
Other capital adjustments		(1,754)		(1,738)
	₩	<u>316,536</u>	₩	<u>291,399</u>

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

28. Revenue

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

<i>(in millions of Korean won)</i>	2016		2015	
Merchandise	₩	3,791,690	₩	4,276,695
Finished goods		6,424,360		6,485,855
Construction		1,104,631		1,032,554
Housing		127,317		240,148
Others		481,115		423,202
	₩	<u>11,929,113</u>	₩	<u>12,458,454</u>

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29. Construction Contracts

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

(in millions of Korean won)

	2016			
	Beginning balance	Changes¹	Recognized construction revenue	Ending balance
Construction	₩ 3,499,562	₩ 1,845,565	₩ (865,223)	₩ 4,479,904
Heavy industrial	639,706	241,008	(344,598)	536,116
	<u>₩ 4,139,268</u>	<u>₩ 2,086,573</u>	<u>₩ (1,209,821)</u>	<u>₩ 5,016,020</u>

¹ In 2016, the increase in subcontracted amount, such as revenue from initial contracts, and decrease in subcontracted amount, such as alterations in the original contract work, amount to ₩ 2,275,309 million and ₩ 188,736 million, respectively.

(in millions of Korean won)

	2015			
	Beginning balance	Changes¹	Recognized construction revenue	Ending balance
Construction	₩ 1,751,644	₩ 2,628,755	₩ (880,837)	₩ 3,499,562
Heavy industrial	636,500	395,455	(392,249)	639,706
	<u>₩ 2,388,144</u>	<u>₩ 3,024,210</u>	<u>₩ (1,273,086)</u>	<u>₩ 4,139,268</u>

¹ In 2015, the increase in subcontracted amount, such as revenue from initial contracts, and decrease in subcontracted amount, such as alterations in the original contract work, amount to ₩ 3,058,993 million and ₩ 34,783 million, respectively.

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

(in millions of Korean won)

	2016				
	Accumulated construction revenue	Accumulated construction cost	Accumulated revenue	Deferred revenue	Reserve ¹
Construction	₩ 1,388,368	₩ 1,313,698	₩ 74,669	₩ 1,388	₩ -
Heavy industrial	1,275,072	1,232,764	42,308	6,398	48,919
	<u>₩ 2,663,440</u>	<u>₩ 2,546,462</u>	<u>₩ 116,977</u>	<u>₩ 7,786</u>	<u>₩ 48,919</u>

¹ In the consolidated statements of financial position, the reserve is recorded as long-term deposits provided.

(in millions of Korean won)

	2015				
	Accumulated construction revenue	Accumulated construction cost	Accumulated revenue	Deferred revenue	Reserve ¹
Construction	₩ 1,812,272	₩ 1,729,616	₩ 82,656	₩ 42	₩ -
Heavy industrial	1,061,436	1,040,727	20,709	2,282	129,820
	<u>₩ 2,873,708</u>	<u>₩ 2,770,343</u>	<u>₩ 103,365</u>	<u>₩ 2,324</u>	<u>₩ 129,820</u>

¹ In the consolidated statements of financial position, the reserve is recorded as long-term deposits provided.

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

(in millions of Korean won)

	2016		2015	
	Due from customers ¹	Due to customers ²	Due from customers ¹	Due to customers ²
Construction	₩ 56,950	₩ 52,543	₩ 37,765	₩ 50,782
Heavy industrial	60,032	45,735	55,982	57,338
	<u>₩ 116,982</u>	<u>₩ 98,278</u>	<u>₩ 93,747</u>	<u>₩ 108,120</u>

Provisions of loss on construction amounting to ₩ 16,768 million (2015: ₩ 29,217 million) as at December 31, 2016 are included in amounts due from and due to customers for contract work

¹ Due from customers are recognized as Due from customers for contract work in the consolidated statement of financial position.

² Due to customers are recognized as Due to customers for contract work in the consolidated statement of financial position.

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Details of provision of loss on construction as at December 31, 2016, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
Qatar MESAIEED Sewage disposal plant construction	₩	1,727	₩	11,173
Gwangju Taejeondong APT		8,055		-
Pakistan 230 kV Gujarat project		1,285		4,432
India Mokokchung & Melriat project		1,816		3,152
Yongdudongmyeon road construction and others		251		1,898
Algeria Boufarik project		679		1,657
India JHARKHAND project		775		1,049
Telecommunication Center Construction work		114		1,044
Downtown Welfare facilities		120		1,025
FED Medical brigade camp constructions in Pyeongtaek and others		1,946		3,787
	₩	16,768	₩	29,217

Provisions of loss on construction are included in unbilled and overbilled amounts and recorded as due from customers for contract work or as due to customers for contract work in the consolidated statements of financial position.

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

	Contract date	Contractual completion date	Percentage -of- completion	Due from customers		Trade receivables (receivables from construction contracts)	
				Gross amount	Accumulated impairment loss	Gross amount	Provision for impairment
Urban Redevelopment Projects on the 4th Yongsan Region, Seoul	December, 2015	November, 2020	0.81%	₩ 4.945	₩ -	₩ -	₩ -

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

	<i>(in millions of Korean won)</i>		Changes in construction profit or loss			Changes in estimated total contract costs			Due from customers					
			Provisions for expected losses	Changes in accounting estimate	Error correction	Changes in accounting estimate	Error correction	Gross amount	Accumulated impairment loss					
Construction	₩	10,619	₩	25,099	₩	-	₩	65,617	₩	-	₩	56,950	₩	-
Heavy industrial		6,149		(3,149)		-		2,988		-		60,032		-
	₩	16,768	₩	21,950	₩	-	₩	68,605	₩	-	₩	116,982	₩	-

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

	Changes in estimated total contract revenue	Changes in estimated total contract cost	Impact on profit or loss for the year	Impact on profit or loss for the succeeding year	Changes in due from customers for contract work ^{1&2}
Construction	₩ 80,370	₩ 65,617	₩ 25,099	₩ (10,346)	₩ 25,099
Heavy industry	4,544	2,988	(3,149)	4,705	(3,149)
Total	₩ 84,914	₩ 68,605	₩ 21,950	₩ (5,641)	₩ 21,950

¹ The impact on recognition of housing revenue are included.

² The impact on sites of due to customers for contract work are included.

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

When the estimated total contract costs increase by 5%, profit before income tax and net assets before income tax effects decrease by ₩ 139,675 million.

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30. Expenses by Nature

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

<i>(in millions of Korean won)</i>	2016	2015
Changes in inventories of finished goods and work-in-process and others	₩ (1,191,217)	₩ (2,403,163)
Sales of merchandise	2,742,334	4,557,621
Raw materials and supplies used	4,502,986	4,732,243
Employee benefit expense (Note 31)	1,173,024	1,092,404
Depreciation and amortization	623,363	570,076
Electricity expense	354,495	377,741
Export expense	158,688	152,283
Fuel expense	120,679	156,688
Service expense	223,994	271,758
Outsourcing expense	1,048,781	889,647
Others	1,155,639	1,110,987
Total ¹	₩ 10,912,766	₩ 11,508,285

¹Included in the cost of sales, selling and administrative expense, and research and development expenses in the consolidated statements of profit or loss.

31. Employee Benefit Expense

<i>(in millions of Korean won)</i>	2016	2015
Salaries	₩ 972,653	₩ 909,317
Employee benefits	135,670	124,993
Pension costs - defined contribution plans	5,471	3,328
Pension costs - defined benefit plans (Note 22)	59,230	54,766
	₩ 1,173,024	₩ 1,092,404

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32. Selling and Administrative Expenses

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

<i>(in millions of Korean won)</i>	2016		2015	
Salaries	₩	280,022	₩	279,008
Severance pension benefits		23,097		23,433
Employee benefits		34,229		33,264
Training		2,912		2,771
Transportation		30,785		26,338
Communications		7,578		8,259
Taxes and dues		24,591		23,386
Rent		37,302		37,444
Bad debt expenses		38,696		3,975
Depreciation		25,306		16,181
Amortization		26,863		30,391
Operating expenses for overseas branches		22,214		19,976
Advertising		40,425		43,489
Freight and storage expenses		69,164		78,760
Service fees		77,956		70,528
Export expenses		158,688		152,283
Entertainment		15,946		14,414
Others		109,395		93,104
	₩	<u>1,025,169</u>	₩	<u>957,004</u>

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33. Other Income and Other Expenses

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

<i>(in millions of Korean won)</i>	2016	2015
Other income		
Rental income	₩ 2,387	₩ 2,545
Gain on disposal of property, plant and equipment	5,396	8,243
Gain on disposal of intangible assets	28	79
Gain on disposal of investment property	-	3,520
Miscellaneous revenue	46,581	64,965
Gain on derivative transactions	545	36
Gain on valuation of derivatives	143	-
Reversal of other assets' allowance for bad debts	129	50
Government grants	10,879	9,666
Dividends	188	588
	<u>66,276</u>	<u>89,692</u>
Other expenses		
Loss on valuation of inventories	-	243
Loss on disposal of property, plant and equipment	7,353	849
Impairment loss on property, plant and equipment	39,188	10,362
Loss on disposal of intangible assets	756	1,175
Impairment loss on intangible assets	15,173	13,334
Loss on disposal of investment property	1,200	523
Loss on disposal of other assets	310	3,958
Impairment loss on other assets	-	292
Miscellaneous losses	79,616	74,664
Loss on obsolescence of inventories	-	54
Donations	6,712	5,826
Other bad debt expenses	14,745	4,082
Nego fee	14,725	11,105
Loss on disposal of trade receivables	2,025	1,970
Commissions	21	78
Additional provisions for guarantees	3,476	-
	<u>185,300</u>	<u>128,515</u>
	<u>₩ (119,024)</u>	<u>₩ (38,823)</u>

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34. Finance Income and Expenses

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

<i>(in millions of Korean won)</i>	2016	2015
Finance income		
Interest income	₩ 7,310	₩ 5,763
Gain on foreign currency transactions	192,685	190,119
Gain on foreign currency translation	196,259	110,744
Gain on disposal of financial assets		
Available-for-sale financial assets	14,036	1,650
Investment in associates	-	58,886
Gain on derivative transactions	35,923	27,208
Gain on valuation of derivatives	4,750	1,505
	<u>450,963</u>	<u>395,875</u>
Finance costs		
Interest expenses	170,286	179,300
Loss on foreign currency transactions	248,123	217,267
Loss on foreign currency translation	218,804	234,680
Loss on disposal of financial assets		
Available-for-sale financial assets	222	581
Investment in associates	-	3,922
Impairment loss on available-for-sale financial assets	1,492	1,310
Loss on derivative transactions	16,942	49,607
Loss on valuation of derivatives	24,217	34,715
	<u>680,086</u>	<u>721,382</u>
	<u>₩ (229,123)</u>	<u>₩ (325,507)</u>

The Group recognizes income and expense relating to exchange difference as finance income and expenses.

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35. Earnings per Share

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

<i>(in millions of Korean won, except per share amount)</i>		2016		2015
Profit attributable to equity holders of the Controlling Company	₩	455,526	₩	492,691
Weighted average number of ordinary shares in issue ¹		33,268,604		33,268,604
Basic earnings per share				
Basic earnings per share from continuing operations <i>(in Korean won)</i>	₩	13,692	₩	14,809

¹ The number of weighted average number of ordinary shares for the years ended December 31, 2016 and 2015, is 33,268,604 and there has been no change.

36. Dividends

The dividends paid in 2016 and 2015 were ₩ 116,440 million (₩3,500 per share) and ₩ 66,537 million (₩ 2,000 per share), respectively. A dividend in respect of the year ended December 31, 2016, of ₩ 5,000 per share, amounting to total dividends of ₩ 166,343 million, is to be proposed at the annual general meeting on March 17, 2016. These consolidated financial statements do not reflect this dividend payable.

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37. Cash Generated from Operations

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

<i>(in millions of Korean won)</i>	2016		2015	
Profit before income tax	₩	696,514	₩	597,290
Adjustments for:				
Interest income and expenses, net		75,728		72,393
Loss (Gain) on foreign currency translation		22,337		123,498
Loss (Gain) on valuation of derivatives		20,036		33,621
Depreciation and amortization		623,363		570,076
Loss (Gain) on disposal of property, plant, equipment, intangible assets and investment property		4,990		(8,906)
Impairment loss on property, plant, equipment, intangible assets, and investment property		54,361		23,696
Bad debts expense		99,527		36,968
Reversal of allowance for bad debts		(129)		(50)
Loss (Gain) on disposal of financial assets		(15,091)		(4,795)
Impairment loss on financial assets		1,492		1,310
Dividends		(13,950)		(7,405)
Severance pension benefits		59,230		54,766
Additional provisions adjustment		40,075		23,375
Loss on disposal of trade receivables		2,025		1,970
Loss (Gain) on investments in subsidiaries and associates		(28,315)		(66,414)
Long-term employee benefits		1,660		736
Others		13,976		37,136
Changes in assets and liabilities from operations:				
Decrease in trade receivables		201,719		177,972
Decrease (Increase) in inventories		(23,350)		19,297
Decrease (Increase) in other receivables		15,073		(11,719)
Increase (Decrease) in unbilled amount		(23,541)		88,149
Decrease (Increase) in other financial assets		960		(1,479)
Increase in other assets		(6,888)		(14,697)
Decrease (Increase) in other financial business assets		(89,340)		136,391
Decrease in cumulative effect of foreign currency translation		560		587
Increase (Decrease) in trade payables		102,447		(126,931)
Increase (Decrease) in other payables		257,362		(81,181)
Decrease in other financial liabilities		(19,063)		(20,973)
Payment of warranty expenses		(21,308)		(17,562)
Payment of post-employment benefits		(5,122)		(11,344)
Payment into plan assets		(51,491)		(92,808)
Others		(1,924)		(68)
Cash generated from operations	₩	<u>1,993,923</u>	₩	<u>1,532,899</u>

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Significant transactions not affecting cash flows are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
Change in advance payments related to the acquisition of property, plant and equipment	₩	(2,227)	₩	(800)
Change in other payables related to the acquisition of property, plant and equipment		(25,327)		(26,251)
Change in other receivables related to disposal of property, plant and equipment		4,144		3,354
Construction-in-progress transferred to property, plant and equipment		687,665		896,921
Reclassification of the current portion of unearned revenue		3,176		8,696
Reclassification of the current portion of long-term deposits received		21,843		23,955
Reclassification of the current portion of debentures		816,800		1,125,300
Reclassification of the current portion of long-term borrowings		825,529		1,668,936

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38. Contingencies and Commitments

(a) Notes and others provided as collaterals

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

	Beneficiary	Number	Contents
Notes	SK Gas Ltd.	1	Blank
	TCC Steel Co., Ltd.	1	Blank
	Oksan-Ochang Highway Ltd.	4	Compliance with obligations of investors
	Citi Card	1	Blank
	Lotte Card	1	Blank
	BC Card	1	Blank
	IBK Capital	1	₩ 20,000 million
	Sinhyup	1	₩ 246 million
Check	Mineral Resource Corporation	1	Blank
	Hanjin Shipping Co., Ltd. ¹	1	Blank
	IBK	2	Blank
	Hyundai Card	1	Blank
	Samsung Card	1	Blank
	Suhyup Card	1	Blank
	Kookmin Card	1	Blank
	Samsung Life	1	Blank
	Valex Korea	1	Blank
	Hana Bank	1	₩ 12 million

¹ The Group had provided a blank check as a collateral for marine transportation credit deal to Hanjin Shipping Co., Ltd. The Group collected the blank check on January 20, 2017 as Hanjin Shipping Co., Ltd. is under court receivership.

(b) Loan agreements and others

The Group has commitments contracted with financial institution with a limit of ₩ 6,147,531 million, including bank overdrafts, trade bill discounts, open local L/C and general loans. Also, the Group has trade receivable discount agreements with a limit of ₩ 2,361,471 million as at December 31, 2016.

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(c) Guarantees provided to others

The Group has provided payment guarantees for others, amounting to ₩ 288,261 million (2015: ₩ 177,773 million) as at December 31, 2016, and the limits of the related guarantees are ₩ 514,512 million (2015: ₩ 582,982 million) as at December 31, 2016. Further, as at December 31, 2016, the Group provides joint guarantees of performing construction contracts amounting ₩ 3,195,726 million (2015: ₩ 2,514,021 million) in relation to the guarantees of housing distribution which developers obtained from Korea Housing & Urban Guarantee Co., Ltd. In addition, the Group has provided fund supplemental commitment amounting to ₩ 308,400 million (2015: ₩ 304,750 million) to Grand Seventh Ltd. in relation to the solar power plant project in Romania as at December 31, 2016. Also, the Group has provided guarantees for its associates, which are the related parties (Note 19).

(d) Guarantees provided in relation to project financing

Details of guarantees provided by the Group to developers as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016		2015	
Debt take-over/fund supplemental commitments	₩	132,000	₩	150,000
Joint guarantees		48,391		48,391
Conditional debt take-over		569,000		113,000
	₩	<u>749,391</u>	₩	<u>311,391</u>

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

(in millions of Korean won)

Construction	Creditor	Guarantee limit	Carrying amount of borrowings	Details of guarantees	Guarantee period
Gwangju Taejeondong APT	IB	₩ 132,000	₩ 132,000	Debt take-over	2016.04~2017.04
Sunchun-si Resource Recycling Center BTO Project	Bank and insurance	48,391	42,991	Joint guarantees	2015.06~2029.06
		<u>₩ 180,391</u>	<u>₩ 174,991</u>		

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

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(e) Guarantees provided by others

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

(in millions of Korean won)

Guarantor	Collaterals and guarantees provided	Amount
The Export-Import Bank of Korea, KEB Hana Bank and others	Performance guarantee and others	711,590
Kookmin Bank, Shinhan Bank and others	Payment guarantee in foreign currencies and others	40,863
Korea Construction Financial Cooperative and others	Construction performance and others	773,466
Seoul Guarantee Insurance Company	Performance guarantee and others	53,485
Machinery Financial Cooperative	Payment guarantee in Korean won and others	77,233
Seoul Housing and Communities Corporation and others	Payment guarantee in borrowing and others	27,958

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(f) *Assets pledged as collaterals*

Details of assets pledged as collaterals for the Group's debts as at December 31, 2016, are as follows:

Assets pledged as collaterals	Book Value		Maximum credit amount		Lender
Cash, and cash equivalents				1,661	
Intangible assets	KRW	98,400	KRW	126,259	Newstarhaechi and others
Property, plant, equipment	KRW	109,934	KRW	287,872	Woori Bank
Available-for-sale financial assets ¹	KRW	-	KRW	155,320	Committee of Creditor Banks of Chin Hung International Inc.
Property, plant, equipment	KRW	740,528	KRW	1,489,001	Korea Development Bank and other
Trade receivables and others	USD	43,000,000	USD	43,000,000	Wells Fargo Bank
Property, plant, equipment	KRW	5,000	KRW	71,500	DH Holdings
Property, plant, equipment	KRW	-	KRW	35,000	Korea Development Bank
Property, plant, equipment	KRW	9,700	KRW	36,000	Nonghyup
Trade receivables	KRW	174,312	KRW	174,312	Woori Bank and Others
Available-for-sale financial assets	KRW	-	KRW	3,300	Machinery Financial Cooperative
Available-for-sale financial assets	KRW	-	KRW	3,319	Construction Financial cooperative
Available-for-sale financial assets	KRW	20,000	KRW	32,125	Samsung securities
Property, plant, equipment ²	KRW	-	KRW	10,000	Jeonju City

¹ The equity shares of Chin Hung International Inc. amounting to ₩ 155,320 million have been provided as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. (Note, 11 and 19).

² The certain amount of the property, plant and equipment are provided as collateral to JeonJu City for receiving government grants.

As at December 31, 2016, the Group has pledged its shares in Somesevit Corporation as collateral (with a maximum credit amount of ₩ 79,900 million) in relation to borrowings of Somesevit Corporation. Also, the Group has pledged its shares in Gongdeok Gyeongwoo Development as collateral (with a maximum credit amount of ₩ 129,500 million) in relation to borrowings of Gongdeok Gyeongwoo Development Corporation. Also, the Group has pledged its shares in Pyeongchang Wind Power Co., Ltd as collateral, relating to borrowings of Pyeongchang Wind Power Co., Ltd. (amount: ₩ 61,500 million). In addition, property, plant and equipment of the Group have been collateralized in relation to inventory finance of Hyosung Toyota Corp., (Note, 18 and 19).

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(g) Pending lawsuits

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

(in millions of Korean won)

	Number		Amount	Details of lawsuit
Plaintiff	16	₩	26,667	Claims for cancellation of acquisition tax levy and others
Defendant	43		132,143	Claims for damages and others

Other than the above, the Group is involved in various lawsuits where the amounts are not material or have not determined yet. The outcome of the above cases cannot be estimated as at December 31, 2016.

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39. Information on Non-controlling Interests

39.1 Changes in Accumulated Non-controlling Interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the years ended December 31, 2016 and 2015, is as follows:

(in millions of Korean won)

	2016					
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Others	Accumulated non-controlling interests at the end of the year
Hyosung Investment & Development Corporation	41.25	₩ 30,328	₩ (4,821)	₩ (18,480)	₩ (753)	₩ 6,274
HanaLandchip Private Real Estate Investment Trust No.39	22.99	(113)	447	-	-	334
Hyosung Capital Co., Ltd.	2.85	10,958	232	-	250	11,440
Nautilus Hyosung Inc.	45.98	128,703	5,928	-	(2,880)	131,751
Hyosung Vietnam Co., Ltd.	11.79	29,938	18,040	-	4,994	52,972
Other		14,041	50	-	5,145	19,236
		₩ 213,855	₩ 19,876	₩ (18,480)	₩ 6,756	₩ 222,007

(in millions of Korean won)

	2015					
	Non-controlling interest rate (%)	Accumulated non-controlling interests at the beginning of the year	Profit or loss allocated to non-controlling interests	Dividends paid to non-controlling interests	Others	Accumulated non-controlling interests at the end of the year
Hyosung Investment & Development Corporation	41.25	₩ 19,603	₩ (1,482)	₩ (9,900)	₩ 22,106	₩ 30,328
HanaLandchip Private Real Estate Investment Trust No.39	22.99	16,001	703	(447)	(16,370)	(113)
Hyosung Capital Co., Ltd.	2.85	10,263	780	(280)	195	10,958
Nautilus Hyosung Inc.	45.98	-	5,094	-	123,609	128,703
Hyosung Vietnam Co., Ltd.	11.79	26,540	17,560	-	(14,162)	29,938
Other	-	30,822	10,545	-	(27,325)	14,042
		₩ 103,229	₩ 33,200	₩ (10,627)	₩ 88,053	₩ 213,855

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39.2 Summarized Financial Information on Subsidiaries

The summarized financial information for each subsidiary with non-controlling interests that are material to the Group before inter-company eliminations is as follows.

Summarized statements of financial position as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016					
	Hyosung Investment & Development Corporation¹	HanaLandchip Private Real Estate Investment Trust No.39	Hyosung Capital Co., Ltd.	Nautilus Hyosung Inc.	Hyosung Vietnam Co., Ltd.	
Current assets	₩ 12,231	₩ 1,054	₩ 161,710	₩ 330,611	₩ 380,133	
Non-current assets	58,683	190,890	2,315,813	228,475	586,311	
Current liabilities	6,082	9,950	740,020	281,515	528,176	
Non-current liabilities	2,804	150,000	1,350,440	957	55,511	
Equity	62,027	31,994	387,064	276,614	382,757	

<i>(in millions of Korean won)</i>	2015					
	Hyosung Investment & Development Corporation¹	HanaLandchip Private Real Estate Investment Trust No.39	Hyosung Capital Co., Ltd.	Nautilus Hyosung Inc.	Hyosung Vietnam Co., Ltd.	
Current assets	₩ 15,453	₩ 1,013	₩ 206,009	₩ 373,521	₩ 375,630	
Non-current assets	61,428	190,890	2,227,895	227,346	666,156	
Current liabilities	3,749	159,919	1,234,638	341,506	625,811	
Non-current liabilities	2,609	-	829,113	7,025	55,493	
Equity	70,523	31,984	370,153	252,336	360,482	

¹Non-consolidated financial statements

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Summarized statements of comprehensive income for the years ended December 31, 2016 and 2015, are as follows:

	2016				
<i>(in millions of Korean won)</i>	Hyosung Investment & Development Corporation¹	HanaLandchip Private Real Estate Investment Trust No.39	Hyosung Capital Co., Ltd.	Nautilus Hyosung Inc.	Hyosung Vietnam Co., Ltd.
Revenue	₩ 544	₩ 8,065	₩ 189,467	₩ 693,424	₩ 1,131,331
Profit for the year	38,127	1,945	8,157	25,998	148,795
Other comprehensive income (expenses)	(1,823)	-	8,753	(1,681)	21,132
Total comprehensive income	<u>₩ 36,304</u>	<u>₩ 1,945</u>	<u>₩ 16,910</u>	<u>₩ 24,317</u>	<u>₩ 169,927</u>

	2015				
<i>(in millions of Korean won)</i>	Hyosung Investment & Development Corporation¹	HanaLandchip Private Real Estate Investment Trust No.39	Hyosung Capital Co., Ltd.	Nautilus Hyosung Inc.	Hyosung Vietnam Co., Ltd.
Revenue	₩ 527	₩ 10,482	₩ 202,279	₩ 431,359	₩ 1,130,058
Profit for the year	22,527	1,895	27,398	11,585	147,510
Other comprehensive income (expenses)	2,947	-	6,860	(5,071)	18,277
Total comprehensive income	<u>₩ 25,474</u>	<u>₩ 1,895</u>	<u>₩ 34,258</u>	<u>₩ 6,514</u>	<u>₩ 165,787</u>

¹Non-consolidated financial statements

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Summarized statements of cash flows for the years ended December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	2016				
	Hyosung Investment & Development Corporation ¹	HanaLandchip Private Real Estate Investment Trust No.39	Nautilus Hyosung Inc.	Hyosung Capital Co., Ltd.	Hyosung Vietnam Co., Ltd.
Cash flows from operating activities	₩ 41,641	₩ 1,971	₩ (36,831)	₩ 108,849	₩ 268,503
Cash flows from investing activities	3,080	-	(57,298)	(15,588)	(36,980)
Cash flows from financing activities	(44,800)	(1,934)	47,423	(108,509)	(230,712)
Net increase (decrease) in cash and cash equivalents	(79)	37	(46,706)	(15,248)	811
Cash and cash equivalents at the beginning of year	221	633	167,962	61,057	7,633
Cash and cash equivalents at the end of year	₩ 142	₩ 670	₩ 121,256	₩ 45,809	₩ 8,444

<i>(in millions of Korean won)</i>	2015				
	Hyosung Investment & Development Corporation ¹	HanaLandchip Private Real Estate Investment Trust No.39	Nautilus Hyosung Inc.	Hyosung Capital Co., Ltd.	Hyosung Vietnam Co., Ltd.
Cash flows from operating activities	₩ 25,307	₩ 1,808	₩ 186,962	₩ 60,669	₩ 321,956
Cash flows from investing activities	(1,260)	-	(53,344)	(31,052)	(108,813)
Cash flows from financing activities	(24,000)	(1,913)	(151,334)	(11,157)	(237,545)
Net increase (decrease) in cash and cash equivalents	47	(105)	(17,716)	18,460	(24,402)
Cash and cash equivalents at the beginning of year	173	738	185,677	42,597	32,035
Cash and cash equivalents at the end of year	₩ 220	₩ 633	₩ 167,961	₩ 61,057	₩ 7,633

¹Non-consolidated financial statements

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40. Unconsolidated Structured Entities

The nature of business unconsolidated structured entities as at December 31, 2016 and 2015, are as follows:

<i>(in millions of Korean won)</i>	Purpose of establishment and activities	Method of financing	2016	2015
Investment fund and investment trust	Enforcement of investment and profit sharing	Issuance of equity shares	₩ 2,672,663	₩ 2,066,347
Mortgage loan	Investment and in real property and collection through sales	Issuance of equity shares and borrowings	1,316,904	212,388
Securitization of assets	Securitization and collection of assets	Issuance of ABL and ABCP	90,829	173,968
Investment in vessels	Investment in vessels and profit sharing	Issuance of equity shares and borrowings	29,080	7,628

The risk of interest in unconsolidated structured entities as at December 31, 2016 and 2015, are as follows:

(in millions of Korean won)

2016	Book value of available-for-sale financial assets	Book value of receivables	Total
Investment fund and investment trust	₩ 145,280	₩ -	₩ 145,280
Mortgage loan	-	117,986	117,986
Securitization of assets	-	5,000	5,000
Investment in vessels	-	9,158	9,158

(in millions of Korean won)

2015	Book value of available-for-sale financial assets	Book value of receivables	Total
Investment fund and investment trust	₩ 100,360	₩ -	₩ 100,360
Mortgage loan	-	67,128	67,128
Securitization of assets	-	15,772	15,772
Investment in vessels	-	7,607	7,607

Maximum exposure to loss on interest in unconsolidated structured entities as at December 31, 2016 and 2015, is equal to the book amount.