

**Hanon Systems Corp.**  
**(formerly, Halla Visteon Climate Control Corp.)**  
**and its subsidiaries**

Consolidated financial statements  
for the years ended December 31, 2015 and 2014  
with independent auditors' report

**Hanon Systems Corp.**

## Contents

Independent auditors' report

Consolidated financial statements

Consolidated statements of financial position	1
Consolidated statements of profit or loss	3
Consolidated statements of comprehensive income	4
Consolidated statements of changes in equity	5
Consolidated statements of cash flows	6
Consolidated notes to the consolidated financial statements	7-69

## Independent auditors' report

### **The Board of Directors and Shareholders Hanon Systems Corp. (formerly, Halla Visteon Climate Control Corp.)**

We have audited the accompanying consolidated financial statements of Hanon Systems Corp. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. 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 auditors' 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 consolidated financial statements present fairly, in all material respects, the financial position of Hanon Systems Corp. and its subsidiaries as at December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

*Ernst & Young Han Young*

March 22, 2016

This audit report is effective as at March 22, 2016, the independent auditors' report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditors' report date to the time this report is used. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

**Hanon Systems Corp.**  
**(formerly, Halla Visteon Climate Control Corp.)**  
**and its subsidiaries**

Consolidated financial statements  
for the years ended December 31, 2015 and 2014

“The accompanying consolidated financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of, the Group.”

In Young Lee  
Chief Executive Officer  
Hanon Systems Corp.

**Hanon Systems Corp. and its subsidiaries**  
**Consolidated statements of financial position**  
**as at December 31, 2015 and 2014**

(Korean won in units)

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	₩ 447,114,126,189	₩ 381,339,285,637
Other financial assets	5	5,000,000,000	-
Derivative financial assets	5,17	7,308,550,327	5,757,464,955
Trade receivables	5,6,24	999,077,410,412	927,880,142,553
Other receivables	5,6,24	128,875,007,669	144,043,284,864
Inventories	7	382,241,023,685	371,788,471,140
Other current assets	8	23,899,747,945	25,429,022,771
		<u>1,993,515,866,227</u>	<u>1,856,237,671,920</u>
<b>Non-current assets</b>			
Long-term financial assets	5	28,741,620	29,757,838
Available-for-sale financial assets	5	1,000,000	1,000,000
Held-to-maturity investments	5	17,120,000	43,770,000
Derivative financial assets	5,17	1,375,133,000	-
Other receivables	5,6,24	6,924,865,620	7,186,487,830
Investment in associates	9	89,168,221,358	80,003,048,955
Property, plant and equipment	10	1,092,715,577,406	1,052,774,067,952
Intangible assets	11	207,385,526,999	171,817,456,955
Deferred tax assets	20	63,576,352,828	66,961,805,006
Other non-current assets	8	4,653,033,180	4,968,249,916
		<u>1,465,845,572,011</u>	<u>1,383,785,644,452</u>
<b>Total assets</b>		<u>₩ <b>3,459,361,438,238</b></u>	<u>₩ <b>3,240,023,316,372</b></u>

(continued)

**Hanon Systems Corp. and its subsidiaries**  
**Consolidated statements of financial position**  
**as at December 31, 2015 and 2014 (cont'd)**

(Korean won in units)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
<b>Equity and liabilities</b>			
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables	4,5,24	₩ 724,792,520,215	₩ 697,743,243,792
Other payables	4,5,12,24	300,175,364,455	243,097,085,942
Short-term borrowings	4,5,16	336,522,420,161	124,174,782,953
Current tax liabilities		55,216,949,954	38,738,382,035
Derivative financial liabilities	5,17	4,718,578,998	16,249,808,927
Other provisions		2,440,614,856	304,040,653
Other current liabilities	13	7,061,983,929	3,568,707,073
		<u>1,430,928,432,568</u>	<u>1,123,876,051,375</u>
<b>Non-current liabilities</b>			
Other payables	4,5,12,15,24	30,074,190,562	30,154,152,669
Long-term borrowings	4,5,16	64,560,699,986	277,190,545,348
Derivative financial liabilities	5,17	4,655,886,000	-
Provision for severance benefits	15	60,164,433,351	67,925,112,219
Provision for warranties	14	25,835,671,888	29,364,318,994
Deferred tax liabilities	20	32,108,226,344	30,684,999,032
Other non-current liabilities	13	11,592,644,326	10,835,706,632
		<u>228,991,752,457</u>	<u>446,154,834,894</u>
<b>Total liabilities</b>		<b><u>1,659,920,185,025</u></b>	<b><u>1,570,030,886,269</u></b>
<b>Equity</b>			
Issued capital	1,22	53,380,000,000	53,380,000,000
Share premium	22	48,060,000,000	48,060,000,000
Other components of equity	22	(71,131,343,144)	(71,131,343,144)
Accumulated other comprehensive income	17,22	(115,250,851,855)	(108,873,553,998)
Retained earnings	22	1,829,642,417,156	1,697,092,078,127
Equity attributable to equity holders of the parent		<u>1,744,700,222,157</u>	<u>1,618,527,180,985</u>
Non-controlling interests		54,741,031,056	51,465,249,118
<b>Total equity</b>		<b><u>1,799,441,253,213</u></b>	<b><u>1,669,992,430,103</u></b>
<b>Total equity and liabilities</b>		<b><u>₩ 3,459,361,438,238</u></b>	<b><u>₩ 3,240,023,316,372</u></b>

The accompanying notes are an integral part of the consolidated financial statements.

**Hanon Systems Corp. and its subsidiaries**  
**Consolidated statements of profit or loss**  
**for the years ended December 31, 2015 and 2014**

(Korean won in units)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
<b>Sales</b>	24,26	₩ 5,558,080,871,335	₩ 5,454,949,458,338
Cost of sales	24,25	(4,697,001,621,187)	(4,546,133,599,513)
<b>Gross profit</b>		<b>861,079,250,148</b>	<b>908,815,858,825</b>
Selling and administrative expenses	18,24,25	(501,529,108,096)	(538,499,585,366)
<b>Operating profit</b>		<b>359,550,142,052</b>	<b>370,316,273,459</b>
Finance income	5,19	9,810,017,064	7,334,500,723
Finance costs	5,19	(26,438,047,705)	(19,601,669,176)
		<b>(16,628,030,641)</b>	<b>(12,267,168,453)</b>
Other non-operating income	5,17,19	114,278,805,097	95,993,506,546
Other non-operating expenses	5,17,19	(124,076,049,030)	(95,802,044,014)
		<b>(9,797,243,933)</b>	<b>191,462,532</b>
Share of profit in an associate	9	12,559,200,635	12,699,047,880
<b>Profit before tax</b>		<b>345,684,068,113</b>	<b>370,939,615,418</b>
Income tax expense	20	(102,313,082,643)	(80,490,680,424)
<b>Profit for the year</b>		<b>₩ 243,370,985,470</b>	<b>₩ 290,448,934,994</b>
<b>Profit attributable to:</b>			
Equity holders of the parent	21	230,509,316,538	275,385,336,126
Non-controlling interests		12,861,668,932	15,063,598,868
		<b>₩ 243,370,985,470</b>	<b>₩ 290,448,934,994</b>
<b>Earnings per share</b>			
Basic and diluted profit for the year attributable to equity holders of the parent	21	₩ 432	₩ 516

The accompanying notes are an integral part of the consolidated financial statements.



**Hanon Systems Corp. and its subsidiaries**  
**Consolidated statements of comprehensive income**  
**for the years ended December 31, 2015 and 2014**

(Korean won in units)

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Profit for the year</b>		₩ <b>243,370,985,470</b>	₩ <b>290,448,934,994</b>
Gain (loss) on cash flow hedge derivative instruments	17	7,041,817,144	(11,372,850,299)
Exchange differences on translation of foreign operations		(15,021,990,437)	(15,893,588,382)
Equity adjustment in equity method	9	1,820,660,392	(2,236,213,147)
Remeasurement of the net defined benefit liability	15	5,598,222,491	(17,104,215,333)
<b>Other comprehensive income (loss)</b>		<b>(561,290,410)</b>	<b>(46,606,867,161)</b>
<b>Total comprehensive income for the year</b>		<b>₩ 242,809,695,060</b>	<b>₩ 243,842,067,833</b>
<b>Attributable to:</b>			
Equity holders of the parent		229,730,241,172	227,977,446,648
Non-controlling interests		13,079,453,888	15,864,621,185
		<b>₩ 242,809,695,060</b>	<b>₩ 243,842,067,833</b>

The accompanying notes are an integral part of the consolidated financial statements.

Hanon Systems Corp. and its subsidiaries  
Consolidated statements of changes in equity  
for the years ended December 31, 2015 and 2014  
(Korean won in units)

		Attributable to owners of the parent								
Notes		Issued capital	Share premium	Other components of equity	Cash flow hedges	Exchange differences on translation of foreign operations	Retained earnings	Sub-total	Non-controlling interests	Total equity
	<b>As at January 1, 2014</b>	₩ 53,380,000,000	₩ 48,060,000,000	₩ (71,131,343,144)	₩ 2,523,766,055	₩ (81,093,645,908)	₩ 1,542,368,157,334	₩ 1,494,106,934,337	₩ 46,761,958,921	₩ 1,540,868,893,258
	Profit for the period	-	-	-	-	-	275,385,336,126	275,385,336,126	15,063,598,868	290,448,934,994
	Other comprehensive income (loss)	-	-	-	(11,372,850,299)	(18,930,823,846)	(17,104,215,333)	(47,407,889,478)	801,022,317	(46,606,867,161)
	<b>Total comprehensive income for the period</b>	-	-	-	(11,372,850,299)	(18,930,823,846)	258,281,120,793	227,977,446,648	15,864,621,185	243,842,067,833
27	Changes in the scope of consolidation	-	-	-	-	-	-	-	6,819,796,774	6,819,796,774
	Dividends on non-controlling interests	-	-	-	-	-	-	(103,557,200,000)	(17,981,127,762)	(17,981,127,762)
22	Cash dividends	-	-	-	-	-	(103,557,200,000)	(103,557,200,000)	-	(103,557,200,000)
	<b>As at December 31, 2014</b>	₩ 53,380,000,000	₩ 48,060,000,000	₩ (71,131,343,144)	₩ (8,849,084,244)	₩ (100,024,469,754)	₩ 1,697,092,078,127	₩ 1,618,527,180,985	₩ 51,465,249,118	₩ 1,669,992,430,103
	<b>As at January 1, 2015</b>	₩ 53,380,000,000	₩ 48,060,000,000	₩ (71,131,343,144)	₩ (8,849,084,244)	₩ (100,024,469,754)	₩ 1,697,092,078,127	₩ 1,618,527,180,985	₩ 51,465,249,118	₩ 1,669,992,430,103
	Profit for the period	-	-	-	-	-	230,509,316,538	230,509,316,538	12,861,668,932	243,370,985,470
	Other comprehensive income (loss)	-	-	-	7,041,817,144	(13,419,115,001)	5,598,222,491	(779,075,366)	217,784,956	(561,290,410)
	<b>Total comprehensive income for the period</b>	-	-	-	7,041,817,144	(13,419,115,001)	236,107,539,029	229,730,241,172	13,079,453,888	242,809,695,060
	Dividends on non-controlling interests	-	-	-	-	-	-	-	(9,803,671,950)	(9,803,671,950)
22	Cash dividends	-	-	-	-	-	(103,557,200,000)	(103,557,200,000)	-	(103,557,200,000)
	<b>As at December 31, 2015</b>	₩ 53,380,000,000	₩ 48,060,000,000	₩ (71,131,343,144)	₩ (1,807,267,100)	₩ (113,443,584,755)	₩ 1,829,642,417,156	₩ 1,744,700,222,157	₩ 54,741,031,056	₩ 1,799,441,253,213

The accompanying notes are an integral part of the consolidated financial statements.

**Hanon Systems Corp. and its subsidiaries**  
**Consolidated statements of cash flows**  
**for the years ended December 31, 2015 and 2014**

(Korean won in units)

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>			
Profit for the year		₩ 243,370,985,470	₩ 290,448,934,994
Adjustments to reconcile profit for the year to net cash provided by operating activities	23	333,978,561,834	308,726,121,003
Changes in operating assets and liabilities	23	(45,806,058,916)	(179,116,992,710)
Interest received		6,408,754,345	5,895,717,365
Interest paid		(13,456,597,489)	(13,243,906,350)
Dividends received		4,262,758,530	8,779,618,250
Income tax paid		(81,242,020,063)	(74,671,693,246)
<b>Net cash flows provided by operating activities</b>		<b>447,516,383,711</b>	<b>346,817,799,306</b>
<b>Investing activities</b>			
Decrease in short-term loan		₩ 1,306,799,784	₩ 10,795,347,515
Decrease in long-term loan		42,900,000	-
Disposal of held-to-maturity investments		26,650,000	2,020,000
Disposal of property, plant, and equipment		11,605,700,163	25,284,073,763
Disposal of intangible assets		1,968,018,569	75,687,095
Cash inflow from business combination		-	12,001,801,495
Cash inflow from derivative transactions		2,380,800,000	815,240,000
Increase in short-term loans		(352,605,761)	(9,624,451,647)
Increase in other financial assets		(5,000,000,000)	-
Acquisition of property, plant and equipment		(226,934,841,190)	(269,354,174,188)
Acquisition of intangible assets	27	(40,947,702,475)	(4,656,886,562)
Cash flow used in business combination		-	(47,309,836,592)
<b>Net cash flows used in investing activities</b>		<b>(255,904,280,910)</b>	<b>(281,971,179,121)</b>
<b>Financing activities</b>			
Proceeds from short-term borrowings		₩ 291,106,480,358	₩ 79,469,497,872
Proceeds from long-term borrowings		1,241,461,874	31,384,358,770
Repayment from short-term borrowings		(293,870,736,726)	(22,298,506,846)
Repayment of current portion of long-term borrowings		-	(13,547,860,521)
Repayment from long-term borrowings		(2,294,759,488)	(7,965,989)
Dividends paid to equity holders of the parent		(103,557,200,000)	(103,557,200,000)
Dividends paid to non-controlling interests	27	(4,469,781,809)	(15,409,779,991)
<b>Net cash flows used in financing activities</b>		<b>(111,844,535,791)</b>	<b>(43,967,456,705)</b>
Net increase in cash and cash equivalents		79,767,567,010	20,879,163,480
Net foreign exchange differences		(13,992,726,458)	13,613,381,025
Cash and cash equivalents as at January 1		381,339,285,637	346,846,741,132
<b>Cash and cash equivalents as at December 31</b>		<b>₩ 447,114,126,189</b>	<b>₩ 381,339,285,637</b>

The accompanying notes are an integral part of the consolidated financial statements.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**1. Corporate information**

**1.1 The Company**

Hanon Systems Corp. (formerly, Halla Visteon Climate Control Corp., the “Company”) was established on March 11, 1986, under the Commercial Code of the Republic of Korea to manufacture, assemble and sell automotive parts such as radiators, air conditioners and heaters, and was organized pursuant to a joint venture agreement on December 12, 1985 between on Ford Motor Company (“Ford”) and Mando Machinery Corporation (“Mando”). On July 31, 1996, the Company offered its ordinary shares for public offering on the Korea Stock Exchange. The Company’s issued capital was initially ₩900,000 thousand upon establishment, and amounts to ₩53,380,000 thousand as at December 31, 2015. Visteon (VIHI,LLC), the existing major shareholder of the parent company, entered into an agreement to sell its 70% ownership interest in the parent company to Hahn & Co. Auto Holdings Co., Ltd. and Hankook Tire Co., Ltd., on December 17, 2014, the transaction of which was completed on June 9, 2015.

The Company’s major shareholders and their respective equity ownership as at December 31, 2015 are as follows:

	<u>Number of shares</u>	<u>Equity ownership (%)</u>
Hahn & Co Auto Holdings Co., Ltd.	53,913,800	50.50
Hankook Tire Co., Ltd,	20,806,200	19.49
Others	32,040,000	30.01
	<b><u>106,760,000</u></b>	<b><u>100.00</u></b>

The Company changed its name from Halla Visteon Climate Control Corporation (“HVCC”) to Hanon Systems Corp. pursuant to the resolution at the extraordinary shareholders meeting in July 2015.

**1.2 Summary of subsidiaries**

Details of consolidated subsidiaries as at December 31, 2015 and 2014 are as follows:

<u>Subsidiaries</u>	<u>Equity ownership (%)</u>		<u>Location</u>	<u>Year end</u>	<u>Industry</u>
	<u>December 31, 2015</u>	<u>December 31, 2014</u>			
Hanon Beijing	80.00	80.00	China	December 31	Manufacture and sale of automotive climate control
Hanon Dalian	100.00	100.00	China	December 31	"
Hanon Jinan	99.70	99.70	China	December 31	"
Hanon Shanghai	100.00	100.00	China	December 31	Sales and services related to automotive climate control and research service
Hanon Chongqing	100.00	100.00	China	December 31	Manufacture and sale of automotive climate control
Hanon Nanchang	80.85	80.85	China	December 31	"
Hanon Yancheng	100.00	100.00	China	December 31	"
Hanon Nanjing	51.00	51.00	China	December 31	"
VASI (*1)	100.00	100.00	India	March 31	"
Hanon Bhiwadi (*1)	61.00	61.00	India	March 31	"
Hanon Japan	100.00	100.00	Japan	December 31	Sales and services related to automotive climate control and research service
Hanon Thailand	100.00	100.00	Thailand	December 31	Manufacture and sale of automotive climate control
Hanon South Africa	100.00	-	South Africa	December 31	"
Hanon Slovakia	100.00	100.00	Slovakia	December 31	"
Hanon Turkey	100.00	100.00	Turkey	December 31	"
Hanon Portugal	100.00	100.00	Portugal	December 31	"

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**1.2 Summary of subsidiaries (cont'd)**

Hanon Autopal Service	99.99	99.99	Czech	December 31	Research service of automotive climate control
Hanon Autopal	99.99	99.99	Czech	December 31	Manufacture and sale of automotive climate control
Hanon Charleville	100.00	100.00	France	December 31	"
Hanon Hungary	100.00	100.00	Hungary	December 31	"
Hanon UK	100.00	100.00	UK	December 31	Sales and services related to automotive climate control and research service
Hanon Deutschland	100.00	100.00	Germany	December 31	Research service of automotive climate control
Hanon Southern Germany	100.00	100.00	Germany	December 31	Sales and services related to automotive climate control and research service
Hanon Netherlands	100.00	100.00	Netherlands	December 31	Sale of automotive climate control
Hanon Russia	100.00	100.00	Russia	December 31	Manufacture and sale of automotive climate control
Hanon Alabama	100.00	100.00	US	December 31	"
Hanon USA	100.00	100.00	US	December 31	Research service of automotive climate control
Hanon Canada	100.00	100.00	Canada	December 31	Manufacture and sale of automotive climate control
Hanon Brazil	100.00	100.00	Brazil	December 31	"
Coclisa	99.99	99.99	Mexico	December 31	"
Climate Systems Mexicana	100.00	100.00	Mexico	December 31	Sale of automotive climate control

(\*1) The year-end dates of these subsidiaries are March 31, which is different from the Company. Accordingly, the unaudited financial statement for the period ending December 31, 2015 was used for consolidation purpose.

The legal names of the subsidiaries and their respective abbreviations used in the notes are as follows:

Hanon Beijing	: Hanon Systems (Beijing) Co., Ltd.
Hanon Dalian	: Hanon Systems (Dalian) Co., Ltd.
Hanon Jinan	: Halla Visteon Climate Control (Jinan) Co., Ltd.
Hanon Shanghai	: Hanon Systems (Shanghai) Co., Ltd.
Hanon Chongqing	: Hanon Systems (Chongqing) Co., Ltd.
Hanon Nanchang	: Hanon Systems (Nanchang) Co., Ltd.
Hanon Yancheng	: Hanon Systems (Yancheng) Co., Ltd.
Hanon Nanjing	: Jie Xi Si (Nanjing) Automotive Climate Control Co., Ltd.
VASI	: Visteon Automotive Systems India Private Ltd.
Hanon Bhiwadi	: Hanon Climate Systems India Private Limited
Hanon Japan	: Hanon Systems Japan Ltd.
Hanon Thailand	: Hanon Systems (Thailand) Co., Ltd.
Hanon South Africa	: Hanon Systems South Africa (PTY) Ltd.
Hanon Slovakia	: Hanon Systems Slovakia s.r.o.
Hanon Turkey	: Hanon Automotive Climate Sys. Manufacturing Industrial and Commercial Co., Ltd.
Hanon Portugal	: Hanon Systems Portugal, S.A.
Hanon Autopal Service	: Hanon Systems Autopal Services s.r.o.
Hanon Autopal	: Hanon Systems Autopal s.r.o.
Hanon Charleville	: Hanon Systems Charleville SAS
Hanon Hungary	: Hanon Systems Hungary Kft.

**1.2 Summary of subsidiaries (cont'd)**

Hanon UK	: Hanon Systems UK Limited
Hanon Deutschland	: Hanon Systems Deutschland GmbH
Hanon Southern Germany	: Hanon Systems Southern Germany GmbH
Hanon Netherlands	: Hanon Systems Netherlands Cooperatief U.A.
Hanon Russia	: Hanon Systems Rus LLC
Hanon Alabama	: Hanon Systems Alabama Corp.
Hanon USA	: Hanon Systems USA, LLC
Hanon Canada	: Hanon Systems Canada Inc.
Hanon Brazil	: Hanon Systems Climatizacoe do Brasil Industria e Comercio Ltda.
Coclisa	: Coclisa, S.A. de C.V.
Climate Systems Mexicana	: Climate Systems Mexicana, S.A. de C.V.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**1.3 Summary of financial information of subsidiaries**

The summarized financial information of subsidiaries as at and for the years ended December 31, 2015 and 2014 is as follows (Korean won in thousands):

	<b>December 31, 2015</b>					
	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>	<b>Sales</b>	<b>Profit (loss)</b>	<b>Total comprehensive income (loss)</b>
Hanon Beijing	₩ 345,054,615	₩ 207,892,757	₩ 137,161,858	₩ 522,870,777	₩ 39,725,021	₩ 43,385,430
Hanon Dalian	189,263,977	56,302,488	132,961,489	271,664,722	23,147,767	24,047,506
Hanon Jinan	29,337,384	20,092,931	9,244,453	31,501,572	609,470	686,901
Hanon Shanghai	8,448,360	4,603,010	3,845,350	16,101,506	37,885	73,302
Hanon						
Chongqing	68,413,346	29,604,601	38,808,745	110,551,579	13,275,551	13,441,185
Hanon Nanchang	63,135,464	24,815,391	38,320,073	94,526,815	12,478,439	12,651,359
Hanon Yancheng	32,646,792	24,968,068	7,678,724	48,992,500	753,675	814,311
Hanon Nanjing	38,327,823	23,575,860	14,751,963	39,724,729	1,529,640	1,644,915
VASI	188,472,689	111,031,396	77,441,293	298,695,675	7,585,737	4,659,579
Hanon Bhiwadi	38,968,977	9,006,410	29,962,567	60,677,486	5,640,856	6,196,634
Hanon Japan	30,621,696	22,842,218	7,779,478	91,027,868	2,277,306	2,643,547
Hanon Thailand	94,033,230	21,520,683	72,512,547	153,326,555	15,283,956	12,919,783
Hanon						
South Africa	55,810	-	55,810	-	-	-
Hanon Slovakia	207,233,896	103,336,493	103,897,403	370,095,707	13,660,622	10,003,291
Hanon Turkey	77,835,911	49,744,853	28,091,058	191,221,919	8,975,467	5,199,364
Hanon Portugal	109,107,755	35,742,157	73,365,598	184,723,129	6,186,409	3,379,571
Hanon						
Autopal service	15,651,398	7,673,634	7,977,764	26,966,350	1,333,455	1,071,069
Hanon Autopal	181,899,667	117,645,413	64,254,254	298,653,228	1,931,436	(624,997)
Hanon Charleville	65,496,809	53,775,282	11,721,527	205,163,001	(1,451,183)	(418,510)
Hanon Hungary	126,497,639	52,366,162	74,131,477	208,338,770	1,947,879	(953,513)
Hanon UK	5,101,184	8,189,340	(3,088,156)	9,332,331	(1,091,135)	(777,508)
Hanon						
Deutschland	45,664,337	65,231,234	(19,566,897)	124,440,113	481,274	5,760,574
Hanon Southern						
Germany	5,383,698	4,015,034	1,368,664	9,823,372	3,118,123	3,260,397
Hanon						
Netherlands	268,456,238	246,596,788	21,859,450	711,365,938	(21,842,040)	(24,119,363)
Hanon Russia	4,114,931	10,416,252	(6,301,321)	31,581,048	(2,708,060)	(1,367,966)
Hanon Alabama	166,769,434	84,330,783	82,438,651	492,897,579	6,222,072	11,165,272
Hanon USA	74,301,037	41,322,771	32,978,266	245,386,199	6,548,119	8,409,731
Hanon Canada	80,635,747	32,670,280	47,965,467	123,962,326	8,195,378	2,970,968
Hanon Brazil	4,721,592	4,703,580	18,012	9,851,649	(1,691,894)	(2,041,531)
Coclisa	40,839,850	30,244,206	10,595,644	71,468,570	2,619,108	2,061,811
Climate systems						
Mexicana	24,605,572	17,843,252	6,762,320	30,220,174	(1,397,465)	(1,574,050)

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**1.3 Summary of financial information of subsidiaries (cont'd)**

	December 31, 2014					
	Assets	Liabilities	Equity	Sales	Profit (loss)	Total comprehensive income (loss)
Hanon Beijing	₩ 288,360,738	₩ 149,889,174	₩ 138,471,564	₩ 546,287,631	₩ 43,091,322	₩ 43,933,967
Hanon Dalian	188,128,850	79,214,867	108,913,983	293,504,598	19,287,806	22,110,450
Hanon Jinan	15,324,737	6,767,185	8,557,552	15,123,494	(479,445)	(356,661)
Hanon Shanghai	12,438,062	8,666,014	3,772,048	15,030,178	144,350	205,047
Hanon						
Chongqing	50,665,205	25,297,645	25,367,560	92,615,680	7,452,505	7,909,605
Hanon Nanchang	67,621,263	41,952,549	25,668,714	101,213,835	17,659,866	18,351,341
Hanon Yancheng	19,536,924	12,672,510	6,864,414	27,451,386	1,403,587	1,629,314
Hanon Nanjing	39,179,832	26,072,785	13,107,047	13,235,742	997,943	1,836,073
VASI	164,354,310	95,671,420	68,682,890	309,348,384	11,438,759	14,507,256
Hanon Bhiwadi	37,696,456	9,632,282	28,064,174	57,765,272	6,910,323	7,267,227
Hanon Japan	25,745,607	20,646,764	5,098,843	88,805,548	1,938,277	1,448,997
Hanon Thailand	101,203,853	26,713,589	74,490,264	167,006,082	16,317,017	19,405,859
Hanon Slovakia	156,848,235	62,954,121	93,894,114	358,592,787	16,628,102	8,898,849
Hanon Turkey	67,240,324	44,348,632	22,891,692	149,137,341	2,154,965	1,159,329
Hanon Portugal	107,660,204	37,674,177	69,986,027	182,814,465	4,819,095	(1,253,127)
Hanon						
Autopal service	14,885,923	7,979,228	6,906,695	33,443,334	4,492,337	4,058,041
Hanon Autopal	147,908,601	83,029,350	64,879,251	242,211,987	6,887,457	1,394,245
Hanon Charleville	75,688,216	68,921,260	6,766,956	260,372,667	4,539,619	2,346,953
Hanon Hungary	133,895,009	58,810,018	75,084,991	222,695,348	3,362,917	(3,258,344)
Hanon UK	5,081,215	6,699,745	(1,618,530)	15,622,887	2,991,114	3,039,053
Hanon						
Deutschland	48,624,402	79,345,478	(30,721,076)	132,383,571	(2,233,997)	(13,480,749)
Hanon southern						
Germany	602,335	2,494,067	(1,891,732)	26,826	(2,714,293)	(2,615,165)
Hanon						
Netherlands	247,760,750	201,781,936	45,978,814	631,161,679	(8,095,386)	(12,536,312)
Hanon Russia	21,868,128	26,801,483	(4,933,355)	51,097,225	(8,359,015)	(6,564,842)
Hanon Alabama	167,353,396	96,080,016	71,273,380	462,345,033	5,896,849	8,755,021
Hanon USA	76,863,616	52,295,079	24,568,537	187,608,002	10,289,309	11,290,850
Hanon Canada	70,011,763	25,017,264	44,994,499	104,645,932	5,622,835	3,736,099
Hanon Brazil	5,370,072	3,310,529	2,059,543	7,707,467	(1,074,908)	(1,236,347)
Coclista	36,878,593	27,977,923	8,900,670	65,161,437	2,531,146	1,309,365
Climate systems						
Mexicana	11,714,322	11,393,653	320,669	23,212,701	1,626,275	1,633,039
VISI(*1)	-	-	-	4,814,782	987,120	987,719

(\*1) Investments in VISI were fully disposed of during the prior year to Reydel Automotive B.V. and others for the consideration of ₩18,840,250 thousand, and a loss on disposal of investment in a subsidiary of ₩1,753,294 thousand was recognized for the year ended December 31, 2014.

Amounts above have been presented before the elimination of intra-group transactions and adjustments have been made where the financial statements of the subsidiaries are needed to bring their accounting policies into line with the Group's accounting policies. Furthermore, total comprehensive income is presented with differences arising from foreign currency translations.

**1.4 Changes in scope of consolidation**

Hanon South Africa has been newly established during the current year and included in scope of consolidation.



## 2. Basis of preparation and significant accounting policies

### 2.1 Basis of preparation

The Group prepares statutory financial statements in the Korean language for the year ended December 31, each year, in accordance with KIFRS enacted by the *Act on External Audit of Stock Companies*. The accompanying consolidated financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the consolidated financial statements or the independent auditors' report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The consolidated financial statements have been prepared on a historical cost basis, except when otherwise indicated.

#### 2.1.1 Statement of compliance

The consolidated financial statements of the Group for the years ended December 31, 2015 and 2014 were prepared in accordance with Korean International Financial Reporting Standards enacted by the *Act on External Audit of Stock Companies*.

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2015. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. The financial statements of the subsidiaries are prepared for the same reporting period as the Company. The subsidiaries applied the same accounting policies as the Company for the same transactions in the similar circumstances.

All intra-group assets and liabilities, equity, income, expenses and cash flow relating to transactions between members of the Group are eliminated in full on consolidation.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Company's accounting policies. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss

Puttable financial instruments or instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation are not classified as equity in the consolidated financial statements. Consequently, the non-controlling interest which includes the obligation to deliver the financial assets to another party is classified as financial liabilities in the consolidated financial statements.

### 2.3 Summary of significant accounting policies

#### 2.3.1 Revenue recognition

##### *Sale of goods*

Revenue from the sale of goods and finished goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Accordingly, revenue from the finished goods is recognized on completion of inspection and that from the goods on delivery.

### **2.3.1 Revenue recognition (cont'd)**

#### *Rendering of services*

Revenue from the rendering of services is recognized by reference to the stage of completion. Stage of completion is measured by reference to service costs incurred to date as a percentage of total estimated service costs for each contract. When the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered. When the contract outcome comes to be measured reliably, revenue is recognized by reference to the stage of completion upon the removed of uncertainty.

#### *Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

#### *Dividends*

Revenue is recognized when the Group's right to receive the payment is established.

### **2.3.2 Taxes**

#### *Current income tax*

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

### **2.3.2 Taxes (cont'd)**

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### *Sales tax*

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable. When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

## **2.3 Summary of significant accounting policies (cont'd)**

### **2.3.3 Foreign currencies**

The Group's consolidated financial statements are presented in Korean won, which is also the parent company's functional currency. Each separate entity under the Group uses the currency of the primary economic environment in which the entity operates ('functional currency') to measure the items included in their respective financial statements.

#### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date. Differences arising from the translation of monetary items are recognized in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

#### *Translation into reporting currency*

On consolidation the assets and liabilities of foreign operations are translated into Korean won at the rate of exchange prevailing at the reporting date and their income statement are translated at average exchange rates for the year of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the statement of profit and loss.

### **2.3.4 Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise of cash in savings account, cash on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

### **2.3.5 Financial instruments – initial recognition and subsequent measurement**

#### *1) Financial assets*

##### *Initial recognition and measurement*

Financial assets within the scope of KIFRS 1039 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are initially recognized at fair value. For those that are not financial assets at fair value through profit and loss, initial cost is recognized as fair value plus transaction costs directly relevant to the acquisition of the financial instrument.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, trade and other receivables, marketable and non marketable financial instruments, loans and so on.

### **2.3.5 Financial instruments – initial recognition and subsequent measurement (cont'd)**

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized as profit and loss in the consolidated statements of income. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group has no financial instruments designated at initial recognition as financial assets at fair value through profit or loss.

The Group evaluates its financial assets held for trading to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and significant changes in management's intention to sell them in the foreseeable future, the Group may elect to reclassify these financial assets. Based on the nature of the asset, reclassification is made to loans and receivables, available-for-sale, or held to maturity investments depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in consolidated statement of profit and loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statements of profit and loss. The losses arising from impairment are recognized as finance costs in the consolidated statements of profit and loss.

#### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of profit and loss. The losses arising from impairment are recognized as finance costs in the consolidated statement of profit and loss.

#### *Available-for-sale (AFS) financial assets*

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income until the investment is derecognized or the investment is determined to be impaired, at which time the cumulative gain or loss is recognized as profit or loss in the consolidated statements of profit and loss.

### **2.3.5 Financial instruments – initial recognition and subsequent measurement (cont'd)**

The Group evaluates whether the ability to hold and intention to dispose its available-for-sale financial assets in the near term is still appropriate. When in rare circumstances, the Group is unable to trade those financial assets due to inactive markets and management's significantly changed intention in the foreseeable future to dispose its available-for-sale, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and there is intent and ability to hold these assets in the foreseeable future or maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly. For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using EIR. Any difference between the new amortised cost and the maturity amount is also amortized over the remaining life of the asset using EIR.

#### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

#### *2) Impairment of financial assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications as follows:

- Significant financial difficulty of the issuer of financial assets
- Default or delinquency in interest or principal payments
- High probability of bankruptcy or other financial reorganization
- Observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in economic conditions of the nations or areas that correlate with default of the financial asset.

#### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized are not included in a collective assessment of impairment.

### **2.3.5 Financial instruments – initial recognition and subsequent measurement (cont'd)**

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statements of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If written off loans and receivables are later recovered, the recovery is credited to impairment losses in the consolidated statements of profit and loss.

#### *Available-for-sale (AFS) financial investments*

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When there is an objective evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income – is removed from OCI and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of profit and loss. Interest income in a subsequent period continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of profit and loss.

### **3) Financial liabilities**

#### *Initial recognition and measurement*

Financial liabilities within the scope of KIFRS 1039 are classified at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of borrowings, net of directly attributable transaction costs.

The Group's financial liabilities mainly include trade payables, other payables and borrowings.

### **2.3.5 Financial instruments – initial recognition and subsequent measurement (cont'd)**

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification.

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1039. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial liabilities held for trading are recognized in the consolidated statement of income. The Group has not designated any financial liability at fair value through profit or loss.

#### *Borrowings*

After initial recognition, interest-bearing borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized as profit or loss when the liabilities are derecognized or amortized by using the EIR. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of profit and loss.

#### *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, less transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

#### *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such replacement or modification is treated as derecognition of the existing liability and recognition of the new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of profit and loss.

#### *4) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

#### *5) Fair value of financial instruments*

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions).

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Details for analysis on the fair value of financial instruments and valuation method are described in Note 5.



## **2.3 Summary of significant accounting policies (cont'd)**

### **2.3.6 Inventories**

Inventories are valued at the lower of cost and net realizable value. Acquisition cost for inventory includes purchase price, conversion cost and costs incurred in bringing each product to its present location. The unit price of inventory is determined by the method as follows:

Merchandise, finished goods, work in progress, raw materials: Weighted average method or moving average method

Supplies: Specific identification method or moving average method

Materials-in-transit: Specific identification method

### **2.3.7 Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized as expense in the consolidated statements of income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings	4 - 50
Structures	5 - 50
Machinery	1 - 21
Vehicles	4 - 10
Tools	2 - 16
Equipment	3 - 16
Leasehold improvements	5 - 10

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the consolidated statement of income when the asset is derecognized.

At the end of every fiscal year, the Group reviews the appropriateness of the residual values, the useful lives and the depreciation methods of tangible assets, and if it is necessary to change the estimates of the above, the Group applies the changes in accounting estimates prospectively.

### **2.3.8 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowings.

## **2.3 Summary of significant accounting policies (cont'd)**

### **2.3.9 Non-current assets held for sale and discontinued operations**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held-for-sale classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if any of the below:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of profit and loss and comprehensive income. There are no discontinued operations subject to the conditions above during the current and the prior period.

### **2.3.10 Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, except for capitalized development costs, are not capitalized and the related expenditure is expensed in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income as the expense category that is consistent with the function of the intangible assets. Amortization of intangible assets is provided using the straight-line method over the estimated useful lives with the range from 3 to 20 years.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the consolidated statement of income when the asset is derecognized.

### **2.3.10 Intangible assets (cont'd)**

#### *Research and development costs*

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is completed and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

When eliminating an intangible asset, the Group reflects a gain or loss on disposal of the intangible asset in current income in the consolidated statement of profit and loss and comprehensive income.

### **2.3.11 Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is set off against other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of profit and loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

#### **Goodwill**

Goodwill is tested for impairment annually at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

## **2.3 Summary of significant accounting policies (cont'd)**

### ***Intangible assets***

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

#### **2.3.12 Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement.

#### **2.3.13 Pension benefits and other post-employment benefits**

The Group operates a defined benefit pension plan (the "DB plan"), which requires contributions to be made to a separately administrated fund.

Under the DB plan, the cost providing benefit is determined separately for each plan using the projected unit credit method. Remeasurements which consist of actuarial gain and loss, return on plan assets (excluding amounts included in net interest) and any change in the effect of the asset ceiling (excluding amounts included in net interest) are recognized as other comprehensive income and are not to be reclassified to profit or loss in a subsequent period.

Past service costs are recognized at the earlier of the date when:

- the plan amendment or curtailment occurs
- the entity recognizes related restructuring cost dismissal allowance

Net interest is determined net defined benefit liabilities (assets) multiplied by discount rate. The Group recognized service cost and net interest expense of net defined benefit liabilities as cost of sales and selling and administrative expenses in the consolidated statement of income.

#### **2.3.14 Government grants**

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants with no repayment obligation, which are used to purchase a designated asset, are presented as a deduction of the acquired asset and are offset against the depreciation of the acquired asset during such assets' useful life.

#### **2.3.15 Treasury shares**

Treasury shares are accounted for as deduction from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's treasury shares. Any difference between the carrying amount and the consideration, if reissued, is recognized in share premium.

## **2.3 Summary of significant accounting policies (cont'd)**

### **2.3.16 Derivative financial instruments and hedge accounting**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The resulting gain or loss is recognized as 'other non-operating income (expenses)' in the consolidated statement of income.

The Group designates certain derivatives as either:

- (1) Hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or
- (2) Hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes and movements on the hedging reserve in other comprehensive income are shown in Notes 17 and 22. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### **(a) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statements of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on foreign loans.

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

#### **(b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately as 'other non-operating income (expenses)' in the consolidated statements of income.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the consolidated statements of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statements of income as 'other non-operating income (expenses)'.

## **2.4 New and amended standards and interpretations**

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended December 31, 2015 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2014 except for the adoption of new standards and interpretations noted below. The Group believes that the adoption of the new and amended standards and interpretations has no significant impact on the consolidated financial statements.

The Group applied the following new and amended standards for a fiscal period started January 1, 2015.

### ***Amendments to KIFRS 1019 Defined Benefit Plans: Employee Contributions***

KIFRS 1019 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for a fiscal period beginning on or after July 1, 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

### ***Annual Improvements 2010-2012 Cycle***

These annual improvements are effective for a fiscal period beginning on or after July 1, 2014 and the Group applied, for the first time, these improvements for a fiscal period started January 1, 2015.

### ***IFRS 1102 Share-based Payment***

This improvement is applied prospectively and clarifies issues below relating to the definition of vesting conditions.

- Performance conditions shall include service rendering conditions.
- A performance target shall be met for the service period.
- A performance target might relate either to the operation or activity of the Group or to subsidiaries of the Group.
- Performance conditions might be market or non-market conditions.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition.

The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. Thus, these amendments did not impact the Group's financial statements or accounting policies.

### ***IFRS 1103 Business Combinations***

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of KIFRS 1039. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

### ***KIFRS 1108 Operating Segments***

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of KIFRS 1108, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities

The Group has not applied the aggregation criteria in KIFRS 1108.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 3 in this period's financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

## 2.4 New and amended standards and interpretations (cont'd)

### ***KIFRS 1016 Property, Plant and Equipment and KIFRS 1038 Intangible Assets***

The amendment is applied retrospectively and clarifies that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Group during the current period.

### ***KIFRS 1024 Related Party Disclosures***

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses these services is required to disclose the expenses incurred. This amendment is not relevant for the Group as it does not receive any management services from other entities.

### ***Annual Improvements 2011-2013 Cycle***

These improvements are effective for a fiscal period beginning on or after July 1, 2014 and the Group applied these amendments, for the first time, for a fiscal period started January 1, 2015.

### ***KIFRS 1103 Business Combinations***

The amendment is applied prospectively and clarifies for the scope exceptions within KIFRS 1103 that:

- Joint arrangements, not just joint ventures, are outside the scope of KIFRS 1103
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

### ***KIFRS 1113 Fair Value Measurement***

The amendment is applied prospectively and clarifies that the portfolio exception in KIFRS 1113 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of KIFRS 1039. The Group does not apply the portfolio exception in KIFRS 1113

## 2.5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

### ***Amendments to KIFRS 1016 and KIFRS 1038: Clarification of Acceptable Methods of Depreciation and Amortization***

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

### ***Amendments to KIFRS 1027: Equity Method in Separate Financial Statements***

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying KIFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for a fiscal period beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

## 2.5 Standards issued but not yet effective (cont'd)

### ***KIFRS 1109 Financial Instruments***

The KASB issued the final version of *KIFRS 1109 Financial Instruments* that replaces *KIFRS 1039 Financial Instruments: Recognition and Measurement* and all previous versions. *KIFRS 1109* brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. *KIFRS 1109* is effective for a fiscal period beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date.

### ***Amendments to KIFRS 1111 Joint Arrangements: Accounting for Acquisitions of Interests***

The amendments to *KIFRS 1111* require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant *KIFRS 1103* principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to *KIFRS 1111* to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for a fiscal period beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have an impact on the Group.

### ***KIFRS 1115 Revenue from Contracts with Customers***

Under *KIFRS 1115*, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under *KIFRS*. Either a full retrospective application or a modified retrospective application is required for a fiscal period beginning on or after January 1, 2018, and early adoption is permitted. The Group plans to adopt the new standard on the required effective date.

## 3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

### **Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that any non-financial assets may be impaired. The Group tests goodwill and intangible assets with indefinite useful lives for impairment annually or when circumstances indicate that the carrying value may be impaired. For other non-financial assets, the Group tests for impairment when circumstances indicate that the recoverable amount may be less than its carrying amount.

Management makes estimates of the expected future cash flows arising from the assets or CGU to calculate value in use, and adopts an appropriate discount rate for the calculation of the present value of the expected future cash flows. Key assumptions, including a sensitivity analysis related to goodwill, are disclosed and further explained in Note 11.



**3. Significant accounting judgments, estimates and assumptions (cont'd)**

**Defined benefit plans (pension benefits)**

The present value of defined benefit pension plan is determined using actuarial valuations. Application of actuarial valuation requires for various assumptions, which include discount rate, future salary increases, mortality rate, future pension increases, and so on. Due to the complexity involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

**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. The Group recorded, based on its best estimate, current taxes and deferred taxes that the Group will be liable in the future for the operating results as of the financial year end. However, the final tax outcome in the future may be different from the amounts that were initially recorded. Such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

**Fair value measurement of financial instruments**

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

**Provisions for warranty and legal contingencies**

The Group recorded provisions related to warranty as at December 31, 2015, and determined the provisions using the estimation based on past experience. In addition, the Group accounted for legal contingencies arising from litigation related to in Note 17 based on management's judgment and estimation.

**4. Financial risk management objectives and policies**

The Group is exposed to market risk (foreign exchange risk, interest risk, cash flow risk), credit risk and liquidity risk. The Group's management reviews that the Group's financial risk-taking activities are governed by appropriate policies and procedures, which have not significant changed since the prior reporting period.

**4-1 Interest risk**

Interest rate risk is the risk that the interest income or interest expense from deposits, loans or borrowings will fluctuate due to changes in future market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term loans and borrowings with floating interest rates. Financial liabilities exposed to the Group's risk of changes in market interest rates are short-term and long-term borrowings with floating interest rates amounting to ₩346,172,120 thousand and ₩348,960,118 thousand as at December 31, 2015 and 2014, respectively. In addition, except for a sharp drop in economy, the Group is not exposed to the interest risk of replacement in consideration of the Group's retained cash level and capacity of cash generating through operations.

The following table shows the effect on the interest expenses due to a 1% variation of interest rate on the Group's short-term and long-term borrowings for one year period, with all other variables fixed, as at December 31, 2015(Korean won in thousands):

Description	2015	
	1% increase	1% decrease
Interest expense	₩ 3,461,721	₩ (3,461,721)

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**4-2 Foreign exchange risk**

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

It is the Group's policy to manage its financial currency against foreign exchanges risks. Foreign exchange risk arises when future expected transactions or recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group manages foreign exchange risks arising from expected cash flows (mainly export sales and purchase of inventory) per major foreign currency for a 36 month period and uses foreign currency forward contracts to hedge foreign exchange risk.

The Group's monetary assets and liabilities denominated in foreign currencies as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

Description	2015		2014	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 179,080,009	₩ 288,655,303	₩ 153,927,554	₩ 275,029,330
EUR	18,561,492	6,241,951	2,993,743	4,788,309
CZK	2,872,920	13,127,667	1,750,724	11,847,393
Others	39,101,335	16,224,747	4,875,277	8,757,866
	₩ 239,615,756	₩ 324,249,668	₩ 163,547,298	₩ 300,422,898

The impacts on the Group's profit before tax due to 5% changes in foreign exchange rates as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

Description	2015		2014	
	5% increase	5% decrease	5% increase	5% decrease
USD	₩ (8,643,165)	₩ 8,643,165	₩ (9,022,929)	₩ 9,022,929
EUR	(1,548,119)	1,548,119	(2,759,623)	2,759,623
CZK	(512,737)	512,737	(504,833)	504,833
Others	1,143,829	(1,143,829)	(194,130)	194,130
	₩ (9,560,192)	₩ 9,560,192	₩ (12,481,515)	₩ 12,481,515

The sensitivity analysis as at December 31, 2015 and 2014 includes the subsidiaries' monetary assets and liabilities denominated in foreign currencies other than functional currencies and excludes monetary assets and liabilities in which hedge accounting was applied.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**4-3 Liquidity risk**

Cash flow forecasting is performed in the operating entities of the Group and aggregated by the Group. 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 undrawn committed borrowing facilities (Note 17) at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements.

Surplus cash held by the operating entities over and above the balance required for working capital management are transferred to the Group's Treasury department. The Treasury department invests surplus cash in interest bearing accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the aforementioned forecasts.

The maturity profile of the Group's financial liabilities (based on contractual undiscounted payments) as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

<b>Year ended December 31, 2015</b>	<b>Book value</b>	<b>Contractual cash flow</b>	<b>Less than 1 year</b>	<b>1~5 years</b>	<b>Over 5 years</b>
Borrowings	₩ 380,457,726	₩ 380,457,726	₩ 334,619,679	₩ 45,443,270	₩ 394,777
Finance lease liabilities	20,625,394	30,366,053	3,788,196	14,728,731	11,849,126
Trade payables	724,792,520	724,792,520	724,792,520	-	-
Other payables (*)	307,005,848	307,005,848	292,764,120	14,241,728	-

<b>Year ended December 31, 2014</b>	<b>Book value</b>	<b>Contractual cash flow</b>	<b>Less than 1 year</b>	<b>1~5 years</b>	<b>Over 5 years</b>
Borrowings	₩ 380,128,922	₩ 380,128,922	₩ 122,518,699	₩ 240,293,496	₩ 17,316,727
Finance lease liabilities	21,236,406	32,169,380	3,569,670	17,526,770	11,072,940
Trade payables	697,743,244	697,743,244	697,743,244	-	-
Other payables (*)	251,856,615	251,856,615	239,138,330	12,718,285	-

(\*) Represents long-term accounts payable (excluding long-term employee benefit liability), short-term accounts payable, accrued expenses, guarantee deposits received, dividend payable, value added tax withheld, and withholdings (deposits received).

The table above analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

**4. Financial risk management objectives and policies (cont'd)**

**4-4 Credit Risk**

Credit risk occurs when customers or counterparties will not meet its obligations under contracts. The Group is exposed to credit risk from its operating and investing activities. In order to manage credit risk, the Group assesses the credit rating regularly considering financial position of customers or counterparties, historical data and so on and defines the credit limits for each customers and counterparties, respectively.

For the year ended December 31, 2015, there were neither significant indications for impairment nor trade receivables and loans or other account receivables past due which are included in the other financial assets. As at December 31, 2015 and 2014, the Group assessed that the possibility of default is low. Outstanding financial instruments are the Group's maximum exposure amounts, net of impairment loss.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For mitigating the risk, the group deals with banks and financial institutions, only independently rated parties with high ratings are accepted.

**4-5 Capital Risk Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group manages capital risk based upon the debt to equity ratio just as other companies within the same industry.

The Group's strategy is to maintain its corporate credit rating at over an investment grade. The Group received AA credit ratings from Korea Investors Service and Korea ratings on January 14, 2016.

The debt to equity ratio of the Group as at December 31, 2015 and 2014, are as follows:

Description	2015	2014
Liabilities	₩ 1,659,920,185	₩ 1,570,030,886
Equity	1,799,441,253	1,669,992,430
Debt to equity ratio	92.2%	94.0%

Hanon Systems Corp. and its subsidiaries  
Notes to the consolidated financial statements  
December 31, 2015 and 2014

5. Financial instruments by category and fair value

5-1 Financial instruments by category and fair value

(1) Categorizations of financial instruments as at December 31, 2015 and 2014, are as follows (Korean won in thousands):

<December 31, 2015>

Assets	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Cash and cash equivalents	₩ 447,114,126	₩ -	₩ -	₩ -	₩ 447,114,126
Other financial instruments	5,000,000	-	-	-	5,000,000
Trade receivables	999,077,410	-	-	-	999,077,410
Other receivables (*1)	54,447,198	-	-	-	54,447,198
Derivative financial assets	-	8,683,683	-	-	8,683,683
Held-to-maturity financial assets	-	-	-	17,120	17,120
Available-for-sale financial assets	-	-	1,000	-	1,000
Long-term financial instruments (*2)	28,742	-	-	-	28,742
	₩ 1,505,667,476	₩ 8,683,683	₩ 1,000	₩ 17,120	₩ 1,514,369,279

Liabilities	Financial liabilities measured at amortised cost	Financial liabilities at fair value through profit or loss	Financial Instruments at fair value through other comprehensive income	Total
Trade payables	₩ 724,792,520	₩ -	₩ -	₩ 724,792,520
Other payables (*3)	307,005,848	-	-	307,005,848
Derivative financial liabilities	-	6,992,421	2,382,044	9,374,465
Short-term borrowings (including financial lease liabilities)	336,522,420	-	-	336,522,420
Long-term borrowings (including financial lease liabilities)	64,560,700	-	-	64,560,700
	₩ 1,432,881,488	₩ 6,992,421	₩ 2,382,044	₩ 1,442,255,953

(\*1) Represent non-trade receivables, accrued income, short-term loans and deposits paid.

(\*2) Represent deposits for checking accounts.

(\*3) Represents long-term accounts payable (excluding long-term employee benefit liability), short-term accounts payable, accrued expenses, guarantee deposits received, dividend payable, value added tax withhold, and withholdings (deposits received).

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**5-1 Financial instruments by category and fair value (cont'd)**

<December 31, 2014>

Assets	Loans and receivables	Financial assets at fair value through profit or loss	Financial Instruments at fair value through other comprehensive income	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Cash and cash equivalents	₩ 381,339,286	₩ -	₩ -	₩ -	₩ -	₩ 381,339,286
Trade receivables	927,880,143	-	-	-	-	927,880,143
Other receivables (*1)	55,044,122	-	-	-	-	55,044,122
Derivative financial assets	-	4,371,661	1,385,804	-	-	5,757,465
Held-to-maturity financial assets	-	-	-	-	43,770	43,770
Available-for-sale financial assets	-	-	-	1,000	-	1,000
Long-term financial instruments (*2)	29,758	-	-	-	-	29,758
	<u>₩ 1,364,293,309</u>	<u>₩ 4,371,661</u>	<u>₩ 1,385,804</u>	<u>₩ 1,000</u>	<u>₩ 43,770</u>	<u>₩ 1,370,095,544</u>

Liabilities	Financial liabilities measured at amortised cost	Financial liabilities at fair value through profit or loss	Financial Instruments at fair value through other comprehensive income	Total
Trade payables	₩ 697,743,244	₩ -	₩ -	₩ 697,743,244
Other payables (*3)	251,856,615	-	-	251,856,615
Derivative financial liabilities	-	3,402,900	12,846,909	16,249,809
Short-term borrowings (including financial lease liabilities)	124,174,783	-	-	124,174,783
Long-term borrowings (including financial lease liabilities)	277,190,545	-	-	277,190,545
	<u>₩ 1,350,965,187</u>	<u>₩ 3,402,900</u>	<u>₩ 12,846,909</u>	<u>₩ 1,367,214,996</u>

(2) Gain or loss of financial instruments by category for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

<2015>

Financial assets	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Interest income	₩ 7,255,380	₩ -	₩ -	₩ 468	₩ 7,255,848
Gain on foreign exchange transactions	7,273,106	-	-	-	7,273,106
Gain on foreign currency translation	9,071,264	-	-	-	9,071,264

Hanon Systems Corp. and its subsidiaries  
Notes to the consolidated financial statements  
December 31, 2015 and 2014

5-1 Financial instruments by category and fair value (cont'd)

Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Interest expenses	₩ -	₩ (13,478,743)	₩ (13,478,743)
Loss on foreign exchange transactions	-	(11,438,224)	(11,438,224)
Loss on foreign currency translation	-	(15,510,699)	(15,510,699)

See note 17 about derivative financial assets and liabilities including related profit or loss.

<2014>

Financial assets	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Interest income	₩ 5,954,532	₩ -	₩ -	₩ 1,180	₩ 5,955,712
Loss on foreign exchange transactions	(385,799)	-	-	-	(385,799)
Gain on foreign currency translation	7,066,072	-	-	-	7,066,072

Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Total
Interest expenses	₩ -	₩ (13,459,819)	₩ (13,459,819)
Loss on foreign exchange transactions	-	(4,844,878)	(4,844,878)
Loss on foreign currency translation	-	(18,028,419)	(18,028,419)

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**5-1 Financial instruments by category and fair value (cont'd)**

(3) Fair value of financial instruments

Fair value of financial instruments as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		2014	
	Book value	Fair value	Book value	Fair value
Assets measured at fair value:				
Derivative financial assets	₩ 8,683,683	₩ 8,683,683	₩ 5,757,465	₩ 5,757,465
	₩ 8,683,683	₩ 8,683,683	₩ 5,757,465	₩ 5,757,465
Assets measured at amortised cost:				
Cash and cash equivalents	₩ 447,114,126	₩ 447,114,126	₩ 381,339,286	₩ 381,339,286
Other financial assets	5,000,000	5,000,000	-	-
Trade receivables	999,077,410	999,077,410	927,880,143	927,880,143
Other receivables	54,447,198	54,447,198	55,044,122	55,044,122
Long-term financial instruments	28,742	28,742	29,758	29,758
Available-for-sale financial instruments	1,000	1,000	1,000	1,000
Held-to-maturity investments	17,120	17,120	43,770	43,770
	₩ 1,505,685,596	₩ 1,505,685,596	₩ 1,364,338,079	₩ 1,364,338,079
	₩ 1,514,369,279	₩ 1,514,369,279	₩ 1,370,095,544	₩ 1,370,095,544
Liabilities measured at fair value:				
Derivative financial liabilities	₩ 9,374,465	₩ 9,374,465	₩ 16,249,809	₩ 16,249,809
	₩ 9,374,465	₩ 9,374,465	₩ 16,249,809	₩ 16,249,809
Liabilities measured at amortised cost:				
Trade payables	₩ 724,792,520	₩ 724,792,520	₩ 697,743,244	₩ 697,743,244
Other payables	307,005,848	307,005,848	251,856,615	251,856,615
Short-term borrowings	336,522,420	336,522,420	124,174,783	124,174,783
Long-term borrowings	64,560,700	64,560,700	277,190,545	277,190,545
	₩ 1,432,881,488	₩ 1,432,881,488	₩ 1,350,965,187	₩ 1,350,965,187
	₩ 1,442,255,953	₩ 1,442,255,953	₩ 1,367,214,996	₩ 1,367,214,996

**5-2. Fair value hierarchy**

(1) The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**5-2. Fair value hierarchy (cont'd)**

(2) Fair values on the consolidated statement of financial position by hierarchy as at December 31, 2015 and 2014 are as follow (Korean in thousands):

<b>&lt;2015&gt;</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets measured at fair value:</b>				
Derivative financial assets	₩ -	₩ 8,683,683	₩ -	₩ 8,683,683
Available-for-sale financial instruments	-	-	1,000	1,000
	<u>₩ -</u>	<u>₩ 8,683,683</u>	<u>₩ 1,000</u>	<u>₩ 8,684,683</u>
<b>Assets for which fair values are disclosed:</b>				
Cash and cash equivalents	₩ 84,132	₩ 447,029,994	₩ -	₩ 447,114,126
Other financial assets	-	5,000,000	-	5,000,000
Trade receivables	-	-	999,077,410	999,077,410
Other receivables	-	-	54,447,198	54,447,198
Held-to-maturity investments	-	-	17,120	17,120
Long-term financial instruments	-	28,742	-	28,742
	<u>₩ 84,132</u>	<u>₩ 452,058,736</u>	<u>₩ 1,053,541,728</u>	<u>₩ 1,505,684,596</u>
<b>Liabilities measured at fair value:</b>				
Derivative financial liabilities	₩ -	₩ 9,374,465	₩ -	₩ 9,374,465
	<u>₩ -</u>	<u>₩ 9,374,465</u>	<u>₩ -</u>	<u>₩ 9,374,465</u>
<b>Liabilities for which fair values are disclosed:</b>				
Trade payables	₩ -	₩ -	₩ 724,792,520	₩ 724,792,520
Other payables	-	-	307,005,848	307,005,848
Short-term borrowings	-	336,522,420	-	336,522,420
Long-term borrowings	-	64,560,700	-	64,560,700
	<u>₩ -</u>	<u>₩ 401,083,120</u>	<u>₩ 1,031,798,368</u>	<u>₩ 1,432,881,488</u>
<b>&lt;2014&gt;</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets measured at fair value:</b>				
Derivative financial assets	₩ -	₩ 5,757,465	₩ -	₩ 5,757,465
Available-for-sale financial instruments	-	-	1,000	1,000
	<u>₩ -</u>	<u>₩ 5,757,465</u>	<u>₩ 1,000</u>	<u>₩ 5,758,465</u>
<b>Assets for which fair values are disclosed:</b>				
Cash and cash equivalents	₩ 38,898	₩ 381,300,388	₩ -	₩ 381,339,286
Trade receivables	-	-	927,880,143	927,880,143
Other receivables	-	-	55,044,122	55,044,122
Held-to-maturity investments	-	-	43,770	43,770
Long-term financial instruments	-	29,758	-	29,758
	<u>₩ 38,898</u>	<u>₩ 381,330,146</u>	<u>₩ 982,968,035</u>	<u>₩ 1,364,337,079</u>
<b>Liabilities measured at fair value:</b>				
Derivative financial liabilities	₩ -	₩ 16,249,809	₩ -	₩ 16,249,809
	<u>₩ -</u>	<u>₩ 16,249,809</u>	<u>₩ -</u>	<u>₩ 16,249,809</u>
<b>Liabilities for which fair values are disclosed:</b>				
Trade payables	₩ -	₩ -	₩ 697,743,244	₩ 697,743,244
Other payables	-	-	251,856,615	251,856,615
Short-term borrowings	-	124,174,783	-	124,174,783
Long-term borrowings	-	277,190,545	-	277,190,545
	<u>₩ -</u>	<u>₩ 401,365,328</u>	<u>₩ 949,599,859</u>	<u>₩ 1,350,965,187</u>

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**5-2. Fair value hierarchy (cont'd)**

Currency forwards are measured based upon the observable spot foreign currency, yield curve of each currency and basis spread among currencies. There have been no transfers between level 1 and level 2 for the years ended December 31, 2015 and 2014.

**6. Trade and other receivables**

(1) Details of trade and other receivables as at December 31, 2015 and 2014 are as follows (Korean in thousands):

Description	2015			2014		
	Trade receivables	Allowance for doubtful accounts	Book value	Trade receivables	Allowance for doubtful accounts	Book value
Current						
Trade receivables	₩ 1,005,159,724	₩ (6,082,314)	₩ 999,077,410	₩ 932,602,168	₩ (4,722,025)	₩ 927,880,143
Other receivables	129,040,474	(165,466)	128,875,008	144,093,488	(50,203)	144,043,285
	1,134,200,198	(6,247,780)	1,127,952,418	1,076,695,656	(4,772,228)	1,071,923,428
Non-current						
Other receivables	7,124,554	(199,688)	6,924,866	7,460,077	(273,589)	7,186,488
	7,124,554	(199,688)	6,924,866	7,460,077	(273,589)	7,186,488
	₩ 1,141,324,752	₩ (6,447,468)	₩ 1,134,877,284	₩ 1,084,155,733	₩ (5,045,817)	₩ 1,079,109,916

The Group provides an allowance for doubtful trade and other receivables considering the estimation of collectivity individually and collectively at the same time.

(2) The aging analysis of trade and other receivables as at December 31, 2015 and 2014 is as follows (Korean in thousands):

Description	2015	2014
Neither past due nor impaired	₩ 1,071,303,427	₩ 1,018,140,249
Past due but not impaired		
Less than 3 months	43,648,684	42,815,809
3 months ~ 6 months	8,026,801	9,954,497
More than 6 months	8,083,530	6,830,903
	59,759,015	59,601,209
Past due and impaired	10,262,310	6,414,275
Total amount of receivables	1,141,324,752	1,084,155,733
Allowance	(6,447,468)	(5,045,817)
	₩ 1,134,877,284	₩ 1,079,109,916

(3) Changes in the allowance for doubtful accounts of trade receivables for the years ended December 31, 2015 and 2014 are as follows (Korean in thousands):

	2015	2014
As at Jan. 1	₩ 5,045,817	₩ 3,986,418
Changes in consolidated coverage	-	115,366
Bad debt expense for impaired receivables	3,189,468	2,042,514
Write-off of receivables	(1,904,993)	(1,337,894)
Foreign currency translations	117,176	239,413
As at Dec. 31	₩ 6,447,468	₩ 5,045,817

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**6. Trade and other receivables (cont'd)**

(4) Details of other receivables as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		2014	
	Current	Non-current	Current	Non-current
Non-trade receivables	₩ 39,684,534	₩ -	₩ 34,969,597	₩ -
Value-added tax receivables	67,537,986	-	89,799,091	-
Accrued revenues	4,832,157	-	9,707,495	-
Short-term loans	464,919	-	1,285,281	-
Advance payments	13,814,690	-	6,386,560	-
Long-term loans	-	-	-	132,500
Certificate of deposits	2,540,722	6,924,866	1,895,261	7,053,988
	₩ 128,875,008	₩ 6,924,866	₩ 144,043,285	₩ 7,186,488

**7. Inventories**

Details of inventories as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		
	Acquisition cost	Less valuation allowance	Book value
Merchandises	₩ 6,944,181	₩ (787,929)	₩ 6,156,252
Finished goods	78,247,290	(1,867,448)	76,379,842
Goods partly processed	12,975,603	(44,841)	12,930,762
Work-in-process	48,215,093	(1,375,373)	46,839,720
Raw material	209,359,382	(7,687,122)	201,672,260
Supplies	18,914,289	(1,234,285)	17,680,004
Materials-in-transit	20,582,184	-	20,582,184
	₩ 395,238,022	₩ (12,996,998)	₩ 382,241,024

  

	2014		
	Acquisition cost	Less valuation allowance	Book value
Merchandises	₩ 3,110,310	₩ (114,219)	₩ 2,996,091
Finished goods	87,174,505	(1,255,412)	85,919,093
Goods partly processed	11,924,849	(137,140)	11,787,709
Work-in-process	53,130,723	(1,477,457)	51,653,266
Raw material	186,538,990	(4,046,259)	182,492,731
Supplies	13,708,164	(1,437,073)	12,271,091
Materials-in-transit	24,668,490	-	24,668,490
	₩ 380,256,031	₩ (8,467,560)	₩ 371,788,471

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**8. Other current assets and other non-current assets**

Other current and non-current assets as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		2014	
	Current	Non-current	Current	Non-current
Prepaid expenses and others	₩ 23,899,748	₩ -	₩ 25,429,023	₩ -
Long-term prepaid expenses and others	-	4,653,033	-	4,968,250
	<u>₩ 23,899,748</u>	<u>₩ 4,653,033</u>	<u>₩ 25,429,023</u>	<u>₩ 4,968,250</u>

**9. Investments in associates and joint venture**

(1) Investments in associates as at December 31, 2015 and 2014 consist of the following (Korean won in thousands):

2015						
Company	Country	Ownership	Year end	Acquisition cost	Net assets	Book value
Bonaire (*1)	China	37.5%	Dec.	₩ 30,220,209	₩ 13,185,753	₩ 31,900,682
JCS (*2)	Japan	33.3%	Mar.	18,142,880	34,227,370	34,227,370
FVCC (*3)	China	50.0%	Dec.	19,955,818	14,468,157	23,040,169
				<u>₩ 68,318,907</u>	<u>₩ 61,881,280</u>	<u>₩ 89,168,221</u>

(\*1) Bonaire (formerly, HVCC Wuhu) : Bonaire Automotive Electrical System Co., Ltd.

(\*2) JCS (formerly, HVCC Yamaguchi): Japan Climate Systems Corporation

(\*3) FVCC (formerly, HVCC Changchun): Fawer Visteon Climate Control System (Changchun) Co., Ltd.

2014						
Company	Country	Ownership	Year end	Acquisition cost	Net assets	Book value
Bonaire	China	37.5%	Dec.	₩ 30,220,209	₩ 12,077,287	₩ 30,843,613
JCS	Japan	33.3%	Mar.	18,142,880	28,381,516	28,381,516
FVCC	China	50.0%	Dec.	19,955,818	12,205,297	20,777,920
				<u>₩ 68,318,907</u>	<u>₩ 52,664,100</u>	<u>₩ 80,003,049</u>

(2) Changes in carrying amounts of investment in associates for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

2015						
	Jan. 1	Equity in earnings of associates	Changes in equity of associates	Dividends		Dec. 31
Bonaire	₩ 30,843,613	₩ 1,890,839	₩ 118,160	₩ (951,930)	₩	31,900,682
JCS	28,381,516	8,514,266	1,594,347	(4,262,759)		34,227,370
FVCC	20,777,920	2,154,096	108,153	-		23,040,169
	<u>₩ 80,003,049</u>	<u>₩ 12,559,201</u>	<u>₩ 1,820,660</u>	<u>₩ (5,214,689)</u>	₩	<u>89,168,221</u>
2014						
	Jan. 1	Equity in earnings of associates	Changes in equity of associates	Dividends		Dec. 31
Bonaire	₩ 30,584,390	₩ 1,276,455	₩ 173,062	₩ (1,190,294)	₩	30,843,613
JCS	26,092,770	8,529,143	(2,481,993)	(3,758,404)		28,381,516
FVCC	21,642,672	2,893,450	72,718	(3,830,920)		20,777,920
	<u>₩ 78,319,832</u>	<u>₩ 12,699,048</u>	<u>₩ (2,236,213)</u>	<u>₩ (8,779,618)</u>	₩	<u>80,003,049</u>

**9. Investments in associates and joint venture (cont'd)**

(3) The summarized financial information of associates and joint venture, based on its KIFRS financial statements as at December 31, 2015, and details which have been carried at their book values of the investment in the consolidated financial statements are as follows (Korean won in thousands):

	<u>Bonaire</u>		<u>JCS</u>		<u>FVCC</u>
Sales	₩ 79,290,004	₩	321,019,259	₩	92,983,397
Profit for the year	5,179,294		25,568,367		4,319,224
Assets	89,327,713		172,119,405		71,094,303
Liabilities	54,165,705		69,334,511		42,157,989
Equity	35,162,008		102,784,894		28,936,314
Ownership	37.5%		33.3%		50.0%
Proportionate net assets	13,185,753		34,227,370		14,468,157
Differential investment	18,714,929		-		8,680,903
Unrealized loss	-		-		(108,891)
Book value	31,900,682		34,227,370		23,040,169

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**10. Property, plant and equipment**

Changes in property, plant and equipment for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015							
	Jan.1	Additions	Disposals	Depreciation	Impairment	Transfer (*)	Exchange differences	Dec.31.
Land	₩ 67,181,399	₩ 63,168	₩ (39,466)	₩ -	₩ -	₩ -	₩ (1,274,965)	₩ 65,930,136
Building	210,534,364	10,531,164	(85,340)	(11,001,047)	-	5,907,623	(2,323,936)	213,562,828
Structures	7,789,079	872,514	-	(688,555)	-	1,726,897	(69,159)	9,630,776
Machinery	560,459,379	75,631,822	(2,450,456)	(117,212,557)	(100,900)	49,378,585	(9,571,290)	556,134,583
Vehicles	858,809	243,836	(55,289)	(221,746)	-	123,258	788	949,656
Tools, equipment and others	79,150,431	39,055,065	(5,589,024)	(36,631,021)	-	12,386,152	(671,056)	87,700,547
Office equipment	8,799,368	3,129,041	(77,137)	(3,795,486)	-	2,544,152	61,180	10,661,118
Leasehold improvements	633,912	356,575	(39,280)	(218,507)	-	136,218	(16,932)	851,986
Machinery in transit	6,432,345	4,399,851	-	-	-	(5,896,823)	(16,509)	4,918,864
Construction in progress	110,934,982	112,015,236	(4,868,927)	-	-	(73,012,998)	(2,693,210)	142,375,083
	<u>₩ 1,052,774,068</u>	<u>₩ 246,298,272</u>	<u>₩ (13,204,919)</u>	<u>₩ (169,768,919)</u>	<u>₩ (100,900)</u>	<u>₩ (6,706,936)</u>	<u>₩ (16,575,089)</u>	<u>₩ 1,092,715,577</u>

(\*) The amount includes reclassifications from construction-in-progress to advance payment amounting to ₩6,515,376 thousand, which was used to acquire the land usage rights for Hanon Beijing, and reclassifications to intangible assets amounting to ₩191,560 thousand.

	2014							
	Jan.1	Changes in scope of consolidation (*)	Additions	Disposals	Depreciation	Transfer	Exchange differences	Dec.31.
Land	₩ 69,179,809	₩ 249,827	₩ -	₩ (242,794)	₩ -	₩ -	₩ (2,005,443)	₩ 67,181,399
Building	198,169,547	(1,235,555)	1,679,976	(535,990)	(10,527,083)	27,312,183	(4,328,714)	210,534,364
Structures	7,924,471	-	504,945	-	(556,470)	31,295	(115,162)	7,789,079
Machinery	519,069,425	38,323,549	53,825,770	(12,291,247)	(113,051,231)	87,437,017	(12,853,904)	560,459,379
Vehicles	740,353	73,945	263,479	(91,591)	(304,250)	165,994	10,879	858,809
Tools, equipment and others	70,544,942	(2,455,790)	32,777,332	(5,570,555)	(34,920,590)	19,808,582	(1,033,490)	79,150,431
Office equipment	5,878,007	104,416	3,650,540	627,476	(3,631,619)	2,127,181	43,367	8,799,368
Leasehold improvements	206,463	-	538,744	-	(129,140)	12,038	5,807	633,912
Machinery in transit	840,769	2,408	8,406,901	(14,573)	-	(2,868,384)	65,224	6,432,345
Construction in progress	97,300,632	(3,594,058)	165,041,646	(8,300,784)	-	(135,139,880)	(4,372,574)	110,934,982
	<u>₩ 969,854,418</u>	<u>₩ 31,468,742</u>	<u>₩ 266,689,333</u>	<u>₩ (26,420,058)</u>	<u>₩ (163,120,383)</u>	<u>₩ (1,113,974)</u>	<u>₩ (24,584,010)</u>	<u>₩ 1,052,774,068</u>

(\*) Represents the amount of property, plant and equipment which was acquired in the process of business combination by the Group and disposal of subsidiaries for the year ended December 31, 2015.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**11. Intangible assets**

(1) Changes in intangible assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015						
	Jan.1	Additions	Disposals	Depreciation and impairment	Transfer (*2)	Exchange differences	Dec.31
Goodwill	₩ 148,590,582	₩ -	₩ -	₩ -	₩ -	₩ (704,731)	₩ 147,885,851
Development expenditure (*1)	-	32,049,624	(1,691,499)	(96,511)	-	(370)	30,261,244
Membership	5,310,035	5,918	(334,421)	-	-	1,659	4,983,191
Industrial property right	7,845,301	1,161,603	-	(1,189,486)	-	-	7,817,418
Other intangible assets	10,071,539	9,853,996	(51,520)	(2,825,056)	297,368	(908,504)	16,437,823
	<u>₩ 171,817,457</u>	<u>₩ 43,071,141</u>	<u>₩ (2,077,440)</u>	<u>₩ (4,111,053)</u>	<u>₩ 297,368</u>	<u>₩ (1,611,946)</u>	<u>₩ 207,385,527</u>

  

	2014							
	Jan.1	Changes in scope of consolidation	Additions	Disposals	Depreciation and impairment (*3)	Transfer	Exchange differences	Dec.31
Goodwill	₩ 144,618,189	₩ 10,618,396	₩ -	₩ -	₩ (6,665,323)	₩ -	₩ 19,320	₩ 148,590,582
Membership	5,295,146	-	12,188	-	-	-	2,701	5,310,035
Industrial property right	1,425,127	6,157,200	811,924	-	(548,950)	-	-	7,845,301
Other intangible assets	4,662,755	2,178,605	3,851,214	(75,695)	(1,711,676)	1,113,973	52,363	10,071,539
	<u>₩ 156,001,217</u>	<u>₩ 18,954,201</u>	<u>₩ 4,675,326</u>	<u>₩ (75,695)</u>	<u>₩ (8,925,949)</u>	<u>₩ 1,113,973</u>	<u>₩ 74,384</u>	<u>₩ 171,817,457</u>

(\*1) R&D expenses that do not satisfy conditions for capitalization are recognized in selling and administrative expenses. R&D expenses not capitalized amount to ₩189,494,230 thousand and ₩216,573,114 thousand for the years ended December 31, 2015 and 2014, respectively.

(\*2) The amount includes transfers from property, plant and equipment amounting to ₩191,560 thousand and long-term prepaid expenses related to Hanon Dalian amounting to ₩105,808 thousand.

(\*3) The Company decided to split off the Interior Department of VASI and transfer the department to VISI as at Nov 1, 2014, by the approval of the board of directors at May 29, 2014. The decision to split the Interior Department implies a change in the reporting structure, and on the date of approval of the split-off, the Company allocated a portion of the goodwill to interior department according to relative fair value of each department. Considering the recoverable amount of the Interior Department, the goodwill was recognized as an impairment of ₩6,665,323 thousand for the year ended December 31, 2014.

(2) Impairment test - Goodwill

Goodwill was allocated to cash-generating units at the operating segment level as at December 31, 2015 and 2014 as follows (Korean won in thousands):

	2015	2014
Hanon Beijing	₩ 28,540,909	₩ 28,540,909
VASI	84,459,710	84,459,710
Hanon Alabama	24,952,249	24,952,249
Thermal and emission division (*)	7,074,456	7,801,962
Hanon Nanjing (*)	2,858,527	2,835,752
	<u>₩ 147,885,851</u>	<u>₩ 148,590,582</u>

(\*) As disclosed in Note 27, goodwill arising from business combination during the prior reporting period has been presented net of gains or losses on foreign exchange translations.

**11. Intangible assets (cont'd)**

The Group performs its annual impairment test. Impairment test suggests that the carrying value of cash generating units does not exceed the recoverable amount. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the management for the next five years. Cash flows over the five years are extrapolated using the estimated growth rates stated below. In addition, a constant growth rate assumption is used for perpetual cash flow calculation. The key assumptions used for value-in-use calculations as at December 31, 2015 are as follows:

	<b>2015</b>				
	<b>Hanon Beijing</b>	<b>VASI</b>	<b>Hanon Alabama</b>	<b>Thermal and emission division</b>	<b>Hanon Nanjing</b>
Operating profit rate (*1)	10.31%	6.06%	2.85%	10.43%	10.72%
Revenue growth rate (*2)	4.82%	15.66%	2.06%	12.99%	9.45%
Perpetual growth rate	1.00%	3.00%	-	1.00%	2.00%
Pre-tax discount rate (*3)	14.81%	16.11%	17.52%	24.06%	15.98%

  

	<b>2014</b>				
	<b>Hanon Beijing</b>	<b>VASI</b>	<b>Hanon Alabama</b>	<b>Thermal and emission division</b>	<b>Hanon Nanjing</b>
Operating profit rate (*1)	11.40%	6.65%	2.10%	7.76%	7.75%
Revenue growth rate (*2)	-	13.26%	-	26.36%	3.74%
Perpetual growth rate	-	3.00%	-	2.21%	2.00%
Pre-tax discount rate (*3)	18.70%	14.49%	10.18%	13.59%	18.47%

The Group estimates its revenue growth rate based on the level of future expectations. The discount rate used is the pre-tax discount rate and reflects specific risks of the relevant operating segments.

(3) Sensitivity to changes in assumptions

In connection with calculation of value in use of goodwill of the Group at the end of the reporting period, impairment losses can incur when each variable of CGU decreases or increases as explained below.

<b>Variations in the key assumptions</b>	<b>Hanon Beijing</b>	<b>VASI</b>	<b>Hanon Alabama</b>	<b>Thermal and emission division</b>	<b>Hanon Nanjing</b>
Decrease in the average operating margin to the corresponding values (*1)	1.60%	4.05%	1.86%	9.26%	8.29%
Decrease in average revenue growth rate to the corresponding values (*2)	(12.07)%	4.82%	0.07%	7.73%	5.99%
Increase in pre-tax discount rate to the corresponding value (*3)	n/a	22.53%	25.41%	28.60%	20.29%

(\*1) Operating profit to sales ratio: a decrease in demand can lead to a decrease in operating profit to sales ratio.

(\*2) Sales growth ratio: management recognizes that sales growth ratio can materially influence a speed of its technological advancement and a possibility of the entry of other competitors to the market.

(\*3) Discount rate before tax: it can vary upon changes in risk-free interest rate, risk premium, and targeting capital structure of CGU.



**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**12. Other payables**

Details of other payables as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		2014	
	Current	Non-current	Current	Non-current
Other payables	₩ 107,371,746	₩ -	₩ 117,309,113	₩ -
Value-added tax withheld	9,147,883	-	6,606,865	-
Advance from customers	5,936,354	-	2,049,234	-
Withholdings	10,627,459	-	13,003,623	-
Accrued expenses	156,952,775	-	99,210,421	-
Deposits received	240,000	-	240,000	-
Tax payable	1,474,891	-	1,909,522	-
Accrued non-controlling dividend	8,424,256	-	2,768,308	-
Long-term accounts payable	-	30,074,191	-	30,154,153
	₩ 300,175,364	₩ 30,074,191	₩ 243,097,086	₩ 30,154,153

**13. Other current and non-current liabilities**

Details of other current and non-current liabilities as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		2014	
	Current	Non-current	Current	Non-current
Other payables:				
Unearned revenue	₩ 7,059,270	₩ -	₩ 3,565,866	₩ -
Others	2,714	-	2,841	-
	₩ 7,061,984	₩ -	₩ 3,568,707	₩ -
Other non-current liabilities:				
Long-term unearned revenue	-	11,573,506	-	10,804,212
Others	-	19,138	-	31,495
	₩ -	₩ 11,592,644	₩ -	₩ 10,835,707
	₩ 7,061,984	₩ 11,592,644	₩ 3,568,707	₩ 10,835,707

**14. Provisions**

(1) Details of provisions as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		2014	
	Current	Non-current	Current	Non-current
Warranty provisions	₩ -	₩ 25,835,672	₩ -	₩ 29,364,319
Others	2,440,615	-	304,041	-
	₩ 2,440,615	₩ 25,835,672	₩ 304,041	₩ 29,364,319

(2) Changes in provisions for warranty for years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	2015		2014	
	Current	Non-current	Current	Non-current
As at Jan. 1	₩ 304,041	₩ 29,364,319	₩ 601,561	₩ 25,512,631
Provisions for the year	2,291,946	15,082,381	304,041	16,861,781
Payments for the year	(155,372)	(18,179,744)	(601,561)	(12,352,903)
Exchange differences	-	(431,284)	-	(657,190)
As at Dec. 31	₩ 2,440,615	₩ 25,835,672	₩ 304,041	₩ 29,364,319

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**15. Net employee defined benefit liability and other long-term employee benefit liability**

(1) Defined benefit liabilities as at December 31, 2015 and 2014 consist of the following (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
Present value of funded defined benefit liability	₩ 177,333,285	₩ 182,781,817
Present value of unfunded defined benefit liability	18,933,831	1,784,064
Sub-total	<u>196,267,116</u>	<u>184,565,881</u>
Fair value of plan assets	<u>(136,102,683)</u>	<u>(116,640,769)</u>
	<u>₩ 60,164,433</u>	<u>₩ 67,925,112</u>

(2) Details of other post-employment benefit liabilities in non current accounts payable as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
Other post-employment benefit liabilities	₩ 15,832,462	₩ 17,435,868

(3) Changes in the fair value of defined benefit liabilities for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
As at Jan. 1	₩ 67,925,112	₩ 52,788,258
Pension cost charged to profit or loss		
Service cost	21,793,513	19,996,827
Net interest expense	1,370,440	1,828,688
	<u>₩ 23,163,953</u>	<u>₩ 21,825,515</u>
Benefits paid	(3,956,672)	(123,424)
Re-measurement gain (loss) in OCI		
Actuarial changes arising from changes in demographic assumptions	(66,374)	76,284
Actuarial changes arising from changes in financial assumptions	(3,941,626)	24,917,608
Experience adjustments	(3,272,258)	746,453
Remeasurement gain (loss) from plan assets	958,859	(1,693,930)
	<u>₩ (6,321,399)</u>	<u>₩ 24,046,415</u>
Contributions by employer	(22,061,795)	(27,959,308)
Exchange differences	1,415,234	(2,652,344)
As at Dec. 31	<u>₩ 60,164,433</u>	<u>₩ 67,925,112</u>

(4) Changes in the present value of defined benefit obligation for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
As at Jan. 1	₩ 184,565,881	₩ 136,118,126
Changes in scope of consolidation	-	(309,202)
Service cost	21,793,513	19,996,827
Interest expense	5,412,212	5,657,261
Remeasurement gain (loss) in OCI	(7,280,258)	25,740,345
Benefits paid	(8,025,092)	(2,081,169)
Exchange differences	(199,140)	(556,307)
As at Dec. 31	<u>₩ 196,267,116</u>	<u>₩ 184,565,881</u>

**15. Net employee defined benefit liability and other long-term employee benefit liability (cont'd)**

(5) Changes in the fair value of plan assets for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
As at Jan. 1	₩ 116,640,769	₩ 83,329,868
Changes in scope of consolidation	-	(309,202)
Return on plan assets	4,041,772	3,828,573
Remeasurement gain (loss) of plan assets	(958,859)	1,693,930
Benefits paid	(4,068,420)	(1,957,745)
Contributions by employer	22,061,795	27,959,308
Exchange differences	(1,614,374)	2,096,037
As at Dec. 31	<u>₩ 136,102,683</u>	<u>₩ 116,640,769</u>

The actuarial return on plan assets for the year ended December 31, 2015 amounts to ₩3,201,177 thousand (2014: ₩5,522,503 thousand).

(6) Details of the plan assets as of December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
Corporate bonds	₩ 55,656,745	₩ 33,304,097
Marketable securities	22,214,769	29,184,477
Cash and cash equivalent	17,137	2,119,887
Investment fund	12,217,900	8,502,390
Overseas investments	45,930,158	43,453,522
Deposits to the National Pension Service	65,974	76,396
<b>Total</b>	<u>₩ 136,102,683</u>	<u>₩ 116,640,769</u>

(7) In determining the appropriate discount rate, the Group considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA+' rating or above. The principal actuarial assumptions as at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Discount rate	3.0%	3.4%
Expected rate of salary increase	4.5%	5.8%

As at December 31, 2015, the average maturity of the Company's defined benefits obligation is 16.9 years (2014: 14.0 years)

(8) Sensitivity analysis for significant assumptions as at December 31, 2015 is as follows (Korean won in thousands):

	<u>1% increase</u>	<u>1% decrease</u>
Discount rate	₩ (41,859,165)	₩ 24,301,191
Expected rate of salary increase	8,103,743	(30,891,156)

The sensitivity analysis above have been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**15. Net employee defined benefit liability and other long-term employee benefit liability (cont'd)**

(9) Changes in other post-employment benefit liabilities for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
As at Jan. 1	₩ 17,435,868	₩ 16,158,725
Pension cost charged to profit or loss:		
Service cost	1,269,274	3,349,219
Past service cost	75,763	-
Net interest expense	372,487	460,662
Re-measurement gain (loss)	(54,108)	1,029,193
	<u>1,663,416</u>	<u>4,839,074</u>
Benefits paid	(3,144,323)	(2,804,173)
Exchange differences	(122,499)	(757,758)
As at Dec. 31	<u>₩ 15,832,462</u>	<u>₩ 17,435,868</u>

(\*) Other post-employment benefit liabilities are recognized as long-term accounts payable in other payables.

**16. Borrowings**

(1) Details of short-term borrowings as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>Financial institution</u>	<u>Interest rate</u>	<u>2015</u>	<u>2014</u>
Account receivable financing (*)	KEB Hana Bank and others	LIBOR + 0.8%~0.9%	₩ 22,236,134	₩ 25,853,146
			<u>₩ 22,236,134</u>	<u>₩ 25,853,146</u>
Short-term borrowings	BOA	LIBOR + 1.5~ 3.0% 9.9%~13%	140,414,505	27,881,278 13,852,077
	RBS	EURIBOR + 1.5~1.8%	-	30,756,319
	Raiffeisen	Mosprime + 2.3%	-	3,702,194
	Tatra Bank	1M Euribor + 1.0%	19,221,009	-
	Yapi Kredi Bank	1M Euribor + 1.0%	23,065,211	13,384,017
	HDFC Bank	CBRT + 10%	-	7,089,668
	Deutsche Bank	10%~14%	1,337,447	-
	KEB Hana Bank	12%	15,531,368	-
	Komercni Bank	CD + 1.0%	100,000,000	-
		1M Euribor + 0.97%	12,814,006	-
		<u>₩ 312,383,546</u>	<u>₩ 96,665,553</u>	
Short-term finance lease liabilities	Prax air	20%	128,601	99,632
	FINSA	10%	1,577,643	1,352,707
	Air Product	8%	196,496	203,745
		<u>₩ 1,902,740</u>	<u>₩ 1,656,084</u>	
		<u>₩ 336,522,420</u>	<u>₩ 124,174,783</u>	

(\*) When the transferred or discounted account receivables do not meet the de-recognition criteria for a financial instrument (for instance, when the Company is the obligor due to the right of recourse), the unmatured amounts are recognized as short-term borrowings.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**16. Borrowings (cont'd)**

(2) Details of long-term borrowings as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<b>Financial institution</b>	<b>Interest rate</b>	<b>2015</b>	<b>2014</b>
Long-term borrowings	KEB Hana Bank	CD +1.0%	₩ -	₩ 100,000,000
	BoA	LIBOR+1.5%	28,421,255	140,293,495
	JCS	2%	16,232,460	17,316,728
	Federal Development Loans	0%	1,184,332	-
			<u>₩ 45,838,047</u>	<u>₩ 257,610,223</u>
Long-term finance lease liabilities	Praxair	20%	90,352	205,274
	FINSA	10%	16,692,120	17,141,934
	Air Product	8%	1,940,181	2,233,114
		<u>₩ 18,722,653</u>	<u>₩ 19,580,322</u>	
		<u>₩ 64,560,700</u>	<u>₩ 277,190,545</u>	

(3) The repayment schedules of long-term borrowings as at December 31, 2015 are as follows (Korean won in thousands):

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>After 2021</b>
₩	<u>30,410,041</u>	<u>₩ 10,271,657</u>	<u>₩ 10,748,651</u>	<u>₩ 2,930,604</u>	<u>₩ 10,199,747</u>

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**17. Commitments and contingencies**

(1) Loan agreements that the Company has entered with financial institutions as at December 31, 2015 are as follows (Korean won and foreign currency in thousands):

Financial institution	Agreement	Korean won		Foreign currency		Equivalent of Korean won		Remarks
		₩				₩		
KEB Hana Bank	Bank overdrafts	₩	10,000,000		-		-	Credit Line
	Export-import financing, trade financing, general loans and others		100,000,000		-		-	
	Account receivable financing		145,000,000		-		-	
	Forward contract		-	USD	70,000	₩	82,040,000	
	Long-term borrowings		100,000,000		-		-	
Korea Exchange Bank	Bank overdrafts and others		40,000,000		-		-	Credit Line
	Account receivable financing		50,000,000		-		-	
	Forward contract		-	USD	30,000		35,160,000	
Woori Bank	Export-import financing		-	USD	20,000		23,440,000	
	Forward contract		-	USD	50,000		58,600,000	
Shinhan Bank	Forward contract		-	USD	25,000		29,300,000	
Kookmin Bank	Forward contract		-	USD	25,000		29,300,000	
Bank of America	Forward contract		-	USD	100,000		117,200,000	
	Long-term borrowings		-	USD	100,000		117,200,000	
		₩	445,000,000	USD	420,000	₩	492,240,000	

(2) Payment guarantees that the Company has provided to the subsidiaries as at December 31, 2015 are as follows (Korean won and foreign currency in thousands):

	Gurantee Limit			Implementation			Gurantee period
	Foreign currency	Korean won		Foreign currency	Korean won		
Climate Systems							
Mexicana	USD	6,385	7,483,592	USD	6,385	7,483,592	2015.05.26~2025.08.26
Coclisa	USD	1,692	1,983,537	USD	1,692	1,983,537	2015.07.13~2017.08.31
Coclisa	USD	5,813	6,813,254	USD	5,813	6,813,254	2015.07.13~2017.12.10
Coclisa	USD	4,105	4,811,281	USD	4,105	4,811,281	2015.11.01~2020.10.31
Hanon Netherlands	USD	2,000	2,344,000	USD	2,000	2,344,000	2015.07.28~2017.12.31

(3) As at December 31, 2015, Hanon Nanjing has payment guarantees amounting to USD 19,006 thousand provided by JCS, an equity method investee of the Group.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**17. Commitments and contingencies (cont'd)**

(4) Loan agreements that the subsidiaries have entered into with financial institutions as at December 31, 2015 are as follows (Foreign currency in thousands):

	<u>Principal financial institution</u>	<u>Details</u>	<u>Currency</u>	<u>Limit</u>
China Group Facility (*1)	Bank of America	Loan agreement	USD	14,000
Europe Group Facility (*2)	Bank of America	Loan agreement	EUR	35,000
America Group Facility (*3)	Bank of America	Loan agreement	USD	35,000
Hanon Dalian	KEB Hana Bank	Loan agreement	USD	15,000
	Woori Bank	Loan agreement	CNY	65,800
Hanon Jinan	Bank of America	Loan agreement	USD	4,000
Hanon Shanghai	Bank of America	Loan agreement	CNY	12,000
VASI	HDFC Bank	Loan agreement	INR	500,000
	Citibank	Loan agreement	INR	250,000
Hanon Bhiwadi	HDFC Bank	Loan agreement	INR	80,000
Hanon Slovakia	Tatra Bank	Loan agreement	EUR	20,000
	Citibank	Loan agreement	USD	15,000
Hanon Netherlands	Bank of America	Loan agreement	EUR	15,000
Hanon Turkey	Yapi Kredi Bank	Loan agreement	TRY	15,000
	Deutsche Bank	Loan agreement	EUR	15,000
	Raiffeisen Bank	Loan agreement	EUR	15,000
Hanon Autopal & Hanon Autopal Service	Komercni bank	Loan agreement	EUR	10,000
	Komercni bank	Loan agreement	EUR	2,000
	Bank of America	Loan agreement	USD	10,000
Hanon Canada	Federal Economic Development Agency for Southern Ontario	Government grant (Interest free loan)	CAD	2,175

(\*1) China Group Facility: Hanon Dalian and 6 other Chinese affiliates have been provided with loan facilities with a limit of USD 14 million for the purpose of operating funds.

(\*2) Europe Group Facility: Hanon Netherlands and other 2 affiliates have been provided with loan facilities with a limit of EUR 35 million for the purpose of operating funds.

(\*3) America Group Facility: Hanon Alabama and other 5 affiliates have been provided with loan facilities with a limit of USD 35 million for the purpose of operating funds.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**17. Commitments and contingencies (cont'd)**

(5-1) Details of financial position of outstanding derivative instruments of the Group as at December 31, 2015 and 2014 are as follows (Korean won and foreign currency in thousands):

2015	Derivatives	Contract amount		Statement of financial position	
		Sales	Purchases	Assets (Liabilities)	Other comprehensive income before tax
Cash flow hedges	Forward foreign exchange	USD 803,800	KRW 941,498,356	₩ (975,614)	₩ (975,614)
Cash flow hedges	Forward foreign exchange	EUR 306,700	KRW 398,603,952	(1,406,430)	(1,406,430)
Cash flow hedges	Forward foreign exchange	USD 54,000	KRW 64,396,720	1,050,070	-
Cash flow hedges	Forward foreign exchange	EUR 13,800	KRW 18,316,050	679,424	-
Fair value hedges	Forward foreign exchange	EUR 10,000	KRW 12,685,500	(98,700)	-
Fair value hedges	Forward foreign exchange	EUR 10,000	THB 394,000	60,468	-
				₩ (690,782)	₩ (2,382,044)

Cash flows hedge transactions include forward foreign exchange that the Group uses to manage exposures to fluctuations in cash flows relating to the revenues in foreign currencies. In addition, fair value hedge transactions include forward foreign exchange contracts that the Group uses to manage exposures to fluctuations in fair value of loan receivables in foreign currencies.

By applying cash flows hedge accounting, the longest expected exposure to cash flows fluctuation is until December, 2018. The amount of ₩2,382,044 thousand on valuation of cash flow hedge for accumulated other comprehensive income is all expected to be recognized as a gain within the same period.

2014	Derivatives	Contract amount		Statement of financial position	
		Sales	Purchases	Assets (Liabilities)	Other comprehensive income before tax
Cash flow hedges	Forward foreign exchange	USD 249,300	KRW 263,247,975	₩ (12,409,580)	₩ (12,409,580)
Cash flow hedges	Forward foreign exchange	EUR 67,900	KRW 92,497,152	1,385,804	1,385,804
Cash flow hedges	Forward foreign exchange	EUR 30,664	CZK 846,000	(149,545)	(128,615)
Cash flow hedges	Forward foreign exchange	EUR 13,851	HUF 4,363,000	(214,872)	(214,466)
Cash flow hedges	Forward foreign exchange	EUR 15,370	MXN 276,500	(89,780)	(94,248)
Cash flow hedges	Forward foreign exchange	USD 54,000	KRW 56,099,190	(3,384,890)	-
Cash flow hedges	Forward foreign exchange	EUR 16,400	KRW 24,538,330	2,683,279	-
Fair value hedges	Forward foreign exchange	EUR 10,000	KRW 14,876,300	1,539,050	-
Fair value hedges	Forward foreign exchange	EUR 10,000	THB 407,800	148,190	-
				₩ (10,492,344)	₩ (11,461,105)



**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**17. Commitments and contingencies (cont'd)**

(5-2) Gain (loss) on derivatives for the years ended December 31, 2015 and 2014 is as follows (Korean won and foreign currency in thousands) :

2015	Derivatives	Statement of income		
		Sales	Loss of valuation	Gain (loss) of transaction
Cash flow hedges	Forward foreign exchange	₩ (9,014,301)	₩ (538,610)	₩ (12,198,518)
Cash flow hedges	Forward foreign exchange	7,914,114	(322,337)	1,264,408
Fair value hedges	Forward foreign exchange	-	(98,700)	841,750
Fair value hedges	Forward foreign exchange	-	(117,238)	598,205
Held for trading	Forward foreign exchange	-	-	100,580
Held for trading	Forward foreign exchange	-	-	234,163
Held for trading	Forward foreign exchange	-	-	306,112
		<u>₩ (1,040,187)</u>	<u>₩ (1,076,885)</u>	<u>₩ (8,853,300)</u>

2014	Derivatives	Statement of income		
		Sales	Gain (loss) of valuation	Gain (loss) of transaction
Cash flow hedges	Forward foreign exchange	₩ -	₩ (20,930)	₩ (1,578,093)
Cash flow hedges	Forward foreign exchange	-	(406)	(390,999)
Cash flow hedges	Forward foreign exchange	-	4,468	289,651
Cash flow hedges	Forward foreign exchange	2,438,759	(1,876,000)	6,482,915
Cash flow hedges	Forward foreign exchange	8,416,355	1,486,796	149,358
Fair value hedges	Forward foreign exchange	-	1,539,050	(107,250)
Fair value hedges	Forward foreign exchange	-	148,190	727,621
Fair value hedges	Forward foreign exchange	-	-	126,300
Fair value hedges	Forward foreign exchange	-	-	(1,507,459)
		<u>₩ 10,855,114</u>	<u>₩ 1,281,168</u>	<u>₩ 4,192,044</u>

(6) Pending lawsuits

(6-1) The Company is a defendant in an ongoing litigation related to alleged patent infringement on certain components used in the manufacture of compressors. The lawsuit was filed against the Company by Toyota Jido Shokki Corp. to the Seoul Central District Court on March 18, 2014. Furthermore, similar litigations have been filed by Toyota Jido Shokki against Hanon Japan to the Tokyo District Court on December 26, 2014. Accordingly, Hanon Japan filed the invalidation trial for the subject patent with Japanese Patent Office on May 1, 2015. On January 16, 2015, the Seoul Central District Court ruled against the Group and its parent entity for patent infringement. The Company filed an appeal against the decision of the court on January 23, 2015 and received favorable ruling from the Seoul High Court on January 21, 2016. Thus, Toyota Jido Shokki Corp. is proceeding appellate court appealing against a decision to the Supreme Court.

Also, Japanese Patent Office preliminarily adjudicated about Japanese patent invalid on January 5, 2016 and Toyota Jido Shokki Corp. requested a patent correction for maintaining the validity of patent on March 7, 2016. Meanwhile, as at the end of the current reporting period, Japanese patent infringement lawsuit relating to the Hanon Japan is currently in progress of first instance.

As at the end of the current reporting period, the Company cannot reliably determine the outcome of the appeal procedures and accordingly, no provisions to settle potential contingent liabilities have been recognized.

(6-2) The Company is a defendant in an ongoing litigation related to regular wages filed on May 24, 2013 by former employees of the Company with initial claims against the Company amounting to ₩9.7 billion which has been changed to ₩43.9 billion as at the end of the current reporting period. The litigation is currently undergoing discovery proceedings and the outcome of such litigation cannot be reliably determined considering the "Good faith principle" ruled out by the Korean supreme court full bench on December 18, 2013. Accordingly, no provision to settle potential contingent liabilities has been recognized as at the end of the reporting period.

(7) As at December 31, 2015, the Group holds a restricted Corporate Partnership Deposit amounting to ₩5,000,000 thousand.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**17. Commitments and contingencies (cont'd)**

(8) As at December 31, 2015, the Group holds comprehensive property insurance with a coverage amounting to ₩3,938.9 billion. In addition, the Group is carrying casualty insurances (commercial general liability, product operations liability, and employer's liability), director's and officer's liability insurance, cargo insurance.

(9) For the year ended December 31, 2015, the Company has entered into a master service agreement with Visteon Corporation and the expenses incurred in providing the services under the agreement were accounted for as selling and administrative expenses.

(10) As at December 31, 2015, the Company holds technical license agreements with its associate Bonaire and others and receives royalties of 1.5% - 5.0% on net sales under the terms of these agreements during the contract period.

**18. Selling and administrative expenses**

Details of selling and administrative expenses for the years December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<b>2015</b>		<b>2014</b>
Wages and salaries	₩ 103,531,678	₩	92,766,181
Pension benefits	3,758,161		7,188,598
Employee welfare benefits	24,000,854		24,053,026
Training	945,666		915,342
Taxes and dues	8,185,298		9,630,450
Utilities	1,081,083		610,100
Maintenance	1,790,985		3,176,605
Freight	54,362,053		54,850,054
Warranty	15,082,381		15,223,754
Depreciation	5,528,992		6,496,016
Amortization	3,073,389		1,982,962
Transportation	7,056,578		7,819,455
Communication	1,800,498		2,588,745
Rents	7,365,422		4,574,692
Advertising	2,533,139		727,535
Vehicle maintenance	1,778,804		1,843,948
Commission fees	51,122,446		71,702,412
Bad debt expenses	3,189,468		2,042,514
Research and development costs	189,494,230		216,573,114
Others	15,847,983		13,734,082
<b>Total</b>	<b>₩ 501,529,108</b>	<b>₩</b>	<b>538,499,585</b>

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**19. Finance income and costs, other non-operating income and expenses**

(1) Details of finance income and costs for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
<b>Finance income</b>			
Interest revenues	₩ 7,255,848	₩	5,955,712
Gain on foreign currency transactions	1,522,191		144,039
Gain on foreign currency translation	1,031,978		1,234,750
	<u>₩ 9,810,017</u>	<u>₩</u>	<u>7,334,501</u>
<b>Finance costs</b>			
Interest expenses	₩ 13,478,743	₩	13,459,819
Loss on foreign currency transactions	3,752,078		1,044,250
Loss on foreign currency translation	9,207,227		5,097,600
	<u>₩ 26,438,048</u>	<u>₩</u>	<u>19,601,669</u>

(2) Details of non-operating income and expenses for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
<b>Other non-operating income</b>			
Gain on disposal of property, plant and equipment	₩ 727,523	₩	1,783,897
Gain on disposal of intangible assets	11,818		-
Gain on foreign currency transactions	45,179,980		29,038,866
Gain on foreign currency translation	42,335,975		31,749,292
Gain on valuations of derivative instruments	-		3,160,744
Gain on transactions of derivative instruments	5,081,752		8,459,762
Others	20,941,757		21,800,946
	<u>₩ 114,278,805</u>	<u>₩</u>	<u>95,993,507</u>
<b>Other non-operating expense</b>			
Loss on disposal of property, plant and equipment	₩ 2,326,742	₩	2,919,881
Loss on disposal of intangible assets	121,239		8
Impairment loss on property, plant and equipment	100,900		-
Impairment loss on intangible assets	-		6,665,323
Loss on foreign currency transactions	47,115,211		33,369,329
Loss on foreign currency translation	40,600,162		38,848,788
Loss on valuations of derivative instruments	1,076,885		1,879,576
Loss on transactions of derivative instruments	13,935,052		4,267,718
Others	18,799,858		7,851,421
	<u>₩ 124,076,049</u>	<u>₩</u>	<u>95,802,044</u>

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**20. Income taxes**

(1) The major components of income taxes for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
Current income taxes		
Change in deferred income taxes	₩ 95,913,513	₩ 97,685,971
Adjustment (return tax and reassessment)	5,817,585	(8,733,108)
Adjustment of tax deduction of a subsidiary in China	9,052,665	7,171,279
<b>Total income taxes</b>	<b>110,783,763</b>	<b>96,124,142</b>
Deferred income taxes		
Reflection due to preliminary decision from National Tax Service	-	(12,488,708)
Changes in temporary differences	(9,263,859)	(6,312,700)
Reassessment	793,179	3,167,946
<b>Total deferred income taxes</b>	<b>(8,470,680)</b>	<b>(15,633,462)</b>
<b>Income tax expense</b>	<b>₩ 102,313,083</b>	<b>₩ 80,490,680</b>

(2) Details of income taxes expense recognized in OCI as at December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>	<u>2014</u>
Remeasurement of the net defined benefit liability	₩ (3,534,237)	₩ 335,812
Gain (loss) on derivative instrument valuation	2,092,977	(3,746,845)
	<u>₩ (1,441,260)</u>	<u>₩ (3,411,033)</u>

(3) Income tax effects that are reflected directly in equity as other comprehensive income of the Group at the end of the reporting period are as follows:

<u>2015</u>	<u>Beginning balance</u>	<u>Increase (decrease)</u>	<u>Ending balance</u>
Gain (loss) on cash flow hedge derivative instruments	₩ (2,382,044)	₩ 574,777	₩ (1,807,267)
Remeasurement of the net defined benefit liability	(14,704,418)	3,198,425	(11,505,993)
	<u>₩ (17,086,462)</u>	<u>₩ 3,773,202</u>	<u>₩ (13,313,260)</u>
 <u>2014</u>	 <u>Beginning balance</u>	 <u>Increase (decrease)</u>	 <u>Ending balance</u>
Gain (loss) on cash flow hedge derivative instruments	₩ (11,023,776)	₩ 2,667,754	₩ (8,356,022)
Remeasurement of the net defined benefit liability	1,387,653	(335,812)	1,051,841
	<u>₩ (9,636,123)</u>	<u>₩ 2,331,942</u>	<u>₩ (7,304,181)</u>

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**20. Income taxes (cont'd)**

(4) A reconciliation of income taxes applicable to profit before income taxes at the Korea statutory tax rate to provision for income taxes at the effective income tax rate of the Company are as follows:

Description	2015	2014
Income before income tax expenses (A)	₩ 345,684,068	₩ 370,939,615
Tax at the applicable income tax rate (B)	₩ 102,322,484	₩ 123,619,180
Adjustments:		
Non-deductible expenses	9,726,779	10,792,811
Non-taxable income	(72,600)	(684,564)
Tax credit	(15,467,514)	(41,325,223)
Amounts based on preliminary judgements from National Tax Service	-	(12,488,708)
Tax refund due to tax appeal	(2,230,807)	(6,062,380)
Adjustments from tax deductions of a foreign subsidiary	9,052,665	7,171,279
Others	(1,017,924)	(531,715)
Sub-total (C)	(9,401)	(43,128,500)
Income tax expense (D=B+C)	₩ 102,313,083	₩ 80,490,680
Effective income tax rate (D/A)	29.6%	21.7%

(5) As at December 31, 2015, long-term and short-term deferred tax assets and deferred tax liabilities are as follows. (Korean won in thousands):

Description	2015	2014
Deferred tax assets		
Deferred tax assets to be recovered later than 1 year	₩ 52,875,231	₩ 52,309,330
Deferred tax assets to be recovered within 1 year	10,701,122	14,652,475
Sub-total	₩ 63,576,353	₩ 66,961,805
Deferred tax liabilities		
Deferred tax liabilities to be settled later than 1 year	(30,878,645)	(29,128,798)
Deferred tax liabilities to be settled within 1 year	(1,229,581)	(1,556,201)
Sub-total	₩ (32,108,226)	₩ (30,684,999)
Net deferred tax assets	₩ 31,468,127	₩ 36,276,806

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**20. Income taxes (cont'd)**

(6) Increase (decrease) in accumulated temporary differences and deferred tax assets (liabilities) at the end of the reporting period is as follows (Korean won in thousands):

<2015>

<b>Accumulated temporary differences</b>	<b>Beginning balance</b>	<b>Increase (decrease)</b>	<b>Ending balance</b>
Deferred income tax from temporary differences			
Provision for severance and retirement benefits	₩ 68,168,396	₩ 15,195,395	₩ 83,363,791
Accrued expenses	25,777,605	2,762,915	28,540,520
Provision for product warranties	20,037,852	3,331,627	23,369,479
Provision for losses on valuation of inventory	7,743,760	(2,442,995)	5,300,765
Allowance for depreciation	15,114,424	(24,012,181)	(8,897,757)
Loss on valuation of derivatives (IS)	(837,439)	(122,208)	(959,647)
Loss on foreign exchange translation	4,350,354	628,254	4,978,608
Financial guarantee contract	472,406	(184,278)	288,128
Long-term prepaid advances (present value)	23,654	(1,360)	22,294
Other long-term employee benefits	13,848,409	22,849,889	36,698,298
Sales adjustments	864,000	2,144,516	3,008,516
Gain or loss arising from change in equity	-	234,386	234,386
Acquisition cost on portion of securities	466,408	-	466,408
Payment guarantee commission	4,171,781	-	4,171,781
Late payment interest	50,010	-	50,010
Accrued revenue	(4,749,827)	27,013,018	22,263,191
Retirement premium	(68,461,415)	(14,305,779)	(82,767,194)
Allowance for bad debt	(3,308,606)	3,548,229	239,623
Gain on foreign exchange translation	4,350,354	628,254	4,978,608
Gain on valuation of derivatives	(837,439)	(122,208)	(959,647)
Gain on equity method	(101,668,820)	8,457,986	(93,210,834)
<b>Sub-total</b>	<b>₩ (14,424,133)</b>	<b>₩ 45,603,460</b>	<b>₩ 31,179,327</b>
Deferred income tax from tax credit			
Tax credit carryforwards	11,834,269	-	11,834,269
Deferred income tax reflected directly in equity			
Gain or loss on valuation of derivatives (accumulated OCI)	11,023,776	(8,641,732)	2,382,044
Remeasurement of the net defined benefit liability (accumulated OCI)	(1,387,653)	16,092,071	14,704,418
<b>Sub-total</b>	<b>₩ 9,636,123</b>	<b>₩ 7,450,339</b>	<b>₩ 17,086,462</b>
Others	14,864,055	(16,591,526)	(1,727,471)
<b>Total</b>	<b>₩ 21,910,314</b>	<b>₩ 36,462,273</b>	<b>₩ 58,372,587</b>

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**20. Income taxes (cont'd)**

<2015>

Deferred tax assets (liabilities)	Beginning balance	Increase (decrease)	Ending balance
Deferred income tax from temporary differences			
Provision for severance and retirement benefits	₩ 16,620,787	₩ 3,620,961	₩ 20,241,748
Accrued expenses	5,614,014	1,804,747	7,418,761
Provision for product warranties	4,175,034	(267,969)	3,907,065
Provision for loss on valuation of inventory	2,527,405	(1,279,233)	1,248,172
Allowance for depreciation	5,412,434	(4,289,695)	1,122,739
Loss on valuation of derivatives (IS)	(202,660)	(29,574)	(232,234)
Loss on foreign exchange translation	1,052,786	152,037	1,204,823
Financial guarantee contract	114,322	(44,595)	69,727
Long-term prepaid advances (present value)	5,724	(329)	5,395
Other long-term employee benefits	5,372,173	2,888,747	8,260,920
Sales adjustments	209,088	518,973	728,061
Gain or loss arising from change in equity	-	56,721	56,721
Acquisition cost on portion of securities	-	-	-
Payment guarantee commission	-	-	-
Late payment interest	-	-	-
Accrued revenue	(940,231)	8,560,482	7,620,251
Retirement premium	(16,638,679)	(3,390,982)	(20,029,661)
Allowance for bad debt	(783,294)	841,104	57,810
Gain on foreign exchange translation	1,052,786	152,037	1,204,823
Gain on valuation of derivatives	(202,660)	(29,574)	(232,234)
Gain on equity method	(4,881,689)	-	(4,881,689)
<b>Sub-total</b>	₩ 18,507,340	₩ 9,263,858	₩ 27,771,198
Deferred income tax from tax credit			
Tax credit carry forwards	11,834,269	(793,179)	11,041,090
Deferred income tax reflected directly in equity			
Gain or loss on valuation of derivatives (accumulated OCI)	2,667,754	(2,092,977)	574,777
Remeasurement of the net defined benefit liability (accumulated OCI)	(335,812)	3,534,237	3,198,425
<b>Sub-total</b>	₩ 2,331,942	₩ 1,441,260	₩ 3,773,202
Others	3,603,255	(14,720,618)	(11,117,363)
<b>Total</b>	₩ 36,276,806	₩ (4,808,679)	₩ 31,468,127

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**20. Income taxes (cont'd)**

<2014>

<b>Accumulated temporary differences</b>	<b>Beginning balance</b>	<b>Increase (decrease)</b>	<b>Ending balance</b>
Deferred income tax from temporary differences			
Provision for severance and retirement benefits	₩ 49,201,745	₩ 18,966,651	₩ 68,168,396
Accrued expenses	12,946,130	12,831,476	25,777,605
Provision for product warranties	18,014,626	2,023,226	20,037,852
Provision for loss on valuation of inventory	5,777,577	1,966,183	7,743,760
Allowance for depreciation	17,171,033	(2,056,609)	15,114,424
Loss on valuation of derivatives (IS)	(736,413)	(101,026)	(837,439)
Loss on foreign exchange translation	(2,531,159)	6,881,513	4,350,354
Financial guarantee contract	640,653	(168,247)	472,406
Long-term prepaid advances (present value)	25,194	(1,540)	23,654
Other long-term employee benefits	13,225,383	623,026	13,848,409
Sales adjustments	2,867,000	(2,003,000)	864,000
Gain or loss arising from change in equity	5,142,286	(5,142,285)	-
Acquisition cost on portion of securities	1,603,895	(1,137,487)	466,408
Payment guarantee commission	-	4,171,781	4,171,781
Late payment interest	-	50,010	50,010
Accrued revenue	(408,326)	(4,341,501)	(4,749,827)
Retirement premium	(48,730,179)	(19,731,237)	(68,461,415)
Allowance for bad debt	(3,518,309)	209,702	(3,308,606)
Gain on foreign exchange translation	(2,531,159)	6,881,513	4,350,354
Gain on valuation of derivatives	(736,413)	(101,026)	(837,439)
Gain on equity method	(147,470,037)	45,801,217	(101,668,820)
<b>Sub-total</b>	₩ (80,046,473)	₩ 65,622,340	₩ (14,424,133)
Deferred income tax from tax credit			
Tax credit carryforwards	12,488,708	(654,439)	11,834,270
Deferred income tax reflected directly in equity			
Loss on valuation of derivatives (accumulated OCI)	-	11,023,776	11,023,776
Gain on valuation of derivatives (accumulated OCI)	(4,459,054)	4,459,054	-
<b>Sub-total</b>	₩ (4,459,054)	₩ 15,482,830	₩ 11,023,776
Others	(7,945,656)	21,422,058	13,476,401
<b>Total</b>	₩ (79,962,475)	₩ 101,872,789	₩ 21,910,314



**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**20. Income taxes (cont'd)**

<2014>

Deferred tax assets (liabilities)	Beginning balance	Increase (decrease)	Ending balance
Deferred income tax from temporary differences			
Provision for severance and retirement benefits	₩ 11,995,821	₩ 4,624,965	₩ 16,620,787
Accrued expenses	2,247,852	3,366,162	5,614,014
Provision for product warranties	3,349,274	825,760	4,175,034
Provision for loss on valuation of inventory	1,875,764	651,641	2,527,405
Allowance for depreciation	5,513,605	(101,171)	5,412,434
Loss on valuation of derivatives (IS)	(178,212)	(24,448)	(202,660)
Loss on foreign exchange translation	(612,540)	1,665,326	1,052,786
Financial guarantee contract	155,038	(40,716)	114,322
Long-term prepaid advances (present value)	6,097	(373)	5,724
Other long-term employee benefits	5,279,694	92,480	5,372,173
Sales adjustments	693,814	(484,726)	209,088
Gain or loss arising from change in equity	1,244,433	(1,244,433)	-
Acquisition cost on portion of securities	412,911	(412,911)	-
Payment guarantee commission	-	-	-
Late payment interest	-	-	-
Accrued revenue	43,343	(983,574)	(940,231)
Retirement premium	(11,863,720)	(4,774,959)	(16,638,679)
Allowance for bad debt	(838,662)	55,368	(783,294)
Gain on foreign exchange translation	(612,540)	1,665,326	1,052,786
Gain on valuation of derivatives	(178,212)	(24,448)	(202,660)
Gain on equity method	(4,881,689)	-	(4,881,689)
<b>Sub-total</b>	₩ 13,652,071	₩ 4,855,269	₩ 18,507,340
Deferred income tax from tax credit			
Tax credit carry forwards	-	11,834,269	11,834,269
Deferred income tax reflected directly in equity			
Loss on valuation of derivatives (accumulated OCI)	-	2,667,754	2,667,754
Gain on valuation of derivatives (accumulated OCI)	(1,079,091)	1,079,091	-
<b>Sub-total</b>	₩ (1,079,091)	₩ 3,746,845	₩ 2,667,754
Others	(1,903,342)	5,170,785	3,267,443
<b>Total</b>	₩ 10,669,638	₩ 25,607,168	₩ 36,276,806

Whether deferred tax assets are realized in the future depends on such various factors as an entity's capacity to generate taxable income for the period during which temporary differences are realized, general economic environments, and outlooks on the industry and others. The Company reviews these factors on a regular basis, and has determined not to realize temporary differences arising from adjustments in equity investments in subsidiaries, hence not considering deferred tax assets (liabilities).

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**21. Earnings per share**

(1) The earnings per share of the Group for the years ended December 31, 2015 and 2014 are computed as follows:

	<u>2015</u>	<u>2014</u>
Profit attributable to equity holders of the parent	₩ 230,509,316,538	₩ 275,385,336,126
Weighted-average number of ordinary shares outstanding	533,800,000	533,800,000
Basic earnings per share	432	516

The Company executed stock splits as a result of the resolution of the extraordinary meeting of shareholders dated December 22, 2015, and has re-listed with the rights of new shares on February 16, 2016. The number of the Company's shares outstanding were changed from 106,760,000 shares to 533,800,000 shares and the par value per share was changed from ₩500 to ₩100. The weighted-average number of ordinary shares outstanding of the former period, presented as a comparative purpose, has been adjusted retroactively to reflect the effect of such stock split.

(2) The diluted earnings per share for the years ended December 31, 2015 and 2014 are identical to the basic earnings per share, as the Group has no dilutive shares for the years ended December 31, 2015 and 2014.

**22. Issued capital and reserves**

(1) Issued shares for the years ended December 31, 2015 and 2014 are as follows:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Authorized shares	450,000,000 units	450,000,000 units
Issued shares	106,760,000 units	106,760,000 units
Par value per share	₩ 500	₩ 500
Issued capital	<u>₩ 53,380,000,000</u>	<u>₩ 53,380,000,000</u>

(2) Details of equity components for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

<u>Description</u>	<u>2015</u>	<u>2014</u>
Share premium	₩ 48,060,000	₩ 48,060,000
Other components of equity	<u>(71,131,343)</u>	<u>(71,131,343)</u>
<b>Total</b>	<u>₩ (23,071,343)</u>	<u>₩ (23,071,343)</u>

(3) Details of accumulated other comprehensive income for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

<u>Description</u>	<u>2015</u>	<u>2014</u>
Cash flow hedges	₩ (1,807,267)	₩ (8,849,084)
Exchange differences on translation of foreign operations	(108,272,610)	(93,032,834)
Change in equity of associates	<u>(5,170,975)</u>	<u>(6,991,636)</u>
<b>Total</b>	<u>₩ (115,250,852)</u>	<u>₩ (108,873,554)</u>

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**22. Issued capital and reserves (cont'd)**

(4) Details of retained earnings for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

Description	2015	2014
Legal reserve		
Reserve for earned surplus (*1)	₩ 26,690,000	₩ 26,690,000
Reserve for industrial growth (*2)	2,500,000	2,500,000
<b>Sub-total</b>	<b>29,190,000</b>	<b>29,190,000</b>
Voluntary reserve		
Reserve for business expansion (*3)	959,002,777	959,002,777
Reserve for business rationalization (*4)	27,976,480	27,976,480
<b>Sub-total</b>	<b>986,979,257</b>	<b>986,979,257</b>
Unappropriated retained earnings	813,473,160	680,922,821
<b>Total</b>	<b>₩ 1,829,642,417</b>	<b>₩ 1,697,092,078</b>

(\*1) In accordance with the Korean Commercial Code, an amount equal to at least 10% of cash dividends in required to be appropriated as a legal reserve until the reserve equals 50% of issued capital. The legal reserve may not be stylized for cash dividends but may only be used to offer a deficit, if any, or be transferred to capital.

(\*2) In accordance with the Korean Corporate Tax, the Company appropriated reserve for industrial growth which is deducted from excessive earnings over the legally accepted reserved earnings, which is based upon the calculation of accumulated earnings tax. The reserve for industrial growth may only be used to offer a deficit, if any, or be transferred to capital.

(\*3) Reserve for business expansion is one of the voluntary reserve for the purpose of business expansion in the future.

(\*4) Pursuant to the Regulation of Tax Reduction and Exemption Act (RTREA), the Company was required to appropriate, as a reserve for business rationalization, an amount equal to the tax reduction under the RTREA, and this reserve is regarded as a voluntary reserve due to abolition of relevant regulation.

(5) Cash dividends on ordinary shares declared and paid for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

Description	2015	2014
Dividend for 2015: ₩194 per share (2014: ₩194 per share) (*1)	₩ 103,557,200	₩ 103,557,200

(6) Proposed dividends on ordinary shares for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

Description	2015	2014
Dividend for 2015: ₩194 per share (2014: ₩194 per share) (*1)	₩ 103,557,200	₩ 103,557,200

(\*1) The Company executed stock splits as a result of the resolution of the extraordinary meeting of shareholders dated December 22, 2015, and has re-listed with the rights of new shares on February 16, 2016. Accordingly, the weighted-average number of ordinary shares outstanding of the former period, presented as a comparative purpose, has been adjusted retroactively to reflect the effect of such stock split.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**23. Cash generated from operations**

(1) Adjustment to reconcile net profit to net cash provided by operating activities for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
<b>Adjustment for</b>			
Interest expense	₩ 13,478,743	₩	13,459,819
Interest income	(7,255,848)		(5,955,712)
Income tax expense	102,313,083		80,490,680
Bad debt expense	3,189,468		2,042,514
Loss on foreign currency translation	49,807,389		43,946,388
Other bad debt expenses	26,244		-
Loss on valuation of inventories	20,349,774		2,773,550
Depreciation	169,768,919		163,120,383
Loss on disposal of property, plant and equipment	2,326,742		2,919,881
Amortization	4,111,053		2,260,626
Loss on disposal of intangible assets	121,239		8
Impairment loss on property, plant and equipment	100,900		-
Impairment loss on intangible assets	-		6,665,323
Loss on valuation of derivative instruments	1,076,885		1,879,576
Loss on transaction of derivative instruments	347,025		126,299
Pension benefit	25,627,524		21,825,515
Other long-term employee benefits	1,663,416		4,839,074
Recognition of warranty provisions	15,082,381		16,861,781
Loss on disposal of subsidiary share	-		2,913,848
Gain on valuations of derivative instruments	-		(3,160,744)
Gain on transactions of derivative instruments	(1,786,980)		(107,251)
Gain on foreign currency translation	(43,367,953)		(32,984,042)
Reversal of valuation of allowance for inventories	(11,994,846)		(708,450)
Gain on disposal of property, plant and equipment	(727,523)		(1,783,897)
Gain on disposal of intangible assets	(11,818)		-
Share of profit in associates	(12,559,201)		(12,699,048)
Provisions for the year	2,291,946		-
<b>Total</b>	<u>₩ 333,978,562</u>	₩	<u>308,726,121</u>

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**23. Cash generated from operations (cont'd)**

Changes in operating assets and liabilities for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<b>2015</b>		<b>2014</b>
<b>Changes in operating assets and liabilities</b>			
Derivative financial assets	₩ 1,069,967	₩	3,087,185
Trade receivable	(17,983,818)		(114,789,526)
Other receivables	(24,227,629)		6,932,236
Inventories	(23,562,645)		(36,695,932)
Other current assets	3,506,613		(4,257,022)
Other non-current receivables	52,057		(452,723)
Other non-current assets	(626,120)		(289,708)
Trade payables	39,428		43,374,660
Other payables	63,683,097		(28,084,723)
Derivative financial liabilities	(3,797,647)		(9,160)
Other current liabilities	2,058,934		(5,729,125)
Other provisions	(155,372)		(267,145)
Other non-current payables	1,541,028		805,229
Benefits paid	(6,420,244)		(123,424)
Other long-term employee benefits	(3,144,323)		(2,804,173)
Plan assets	(22,061,795)		(27,959,308)
Warranties paid	(18,179,744)		(12,352,903)
Other non-current liabilities	2,402,154		498,569
<b>Total</b>	<u>₩ (45,806,059)</u>	₩	<u>(179,116,993)</u>

(2) As at December 31, 2015, unpaid amounts for the acquisition of property, plant and equipment, which is a significant factor of non-cash flow activities, amounted to ₩45,950,548 thousand. As at December 31, 2014, the unpaid amounts amounted to ₩26,587,116 thousand.

**24. Related party disclosures**

(1) Visteon (VIHI,LLC), the existing major shareholder of the parent company, entered into an agreement to sell its 69.99% equity ownership to Hahn & Co Auto Holdings Co., Ltd. (50.5%) and Hankook Tire Co., Ltd. (19.49%) during the current year. Accordingly, the Group is controlled by Hahn & Co Auto Holdings Co., Ltd. and significantly influenced by Hankook Tire Co., Ltd., respectively. The remaining 30.01% equity ownership are widely distributed and owned by multiple shareholders. The Group's ultimate parent is Hahn & Co Auto Holdings Co., Ltd. and its associates are Bonaire and two others.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**24. Related party disclosures (cont'd)**

(2) Outstanding balances and significant transactions with related parties for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<b>&lt;2015&gt; (*1)</b>			
	<b>Sales and others</b>	<b>Purchases and others</b>	<b>Receivables</b>	<b>Payables</b>
Ultimate parent company	₩ 972,396	₩ 43,340,665	₩ -	₩ -
Affiliates (*2)	96,611,879	7,406,137	15,481,289	17,259,815
Entities under common control	20,723,101	21,565,332	-	-
	<u>₩ 118,307,376</u>	<u>₩ 72,312,134</u>	<u>₩ 15,481,289</u>	<u>₩ 17,259,815</u>

  

	<b>&lt;2014&gt; (*3)</b>			
	<b>Sales and others</b>	<b>Purchases and others</b>	<b>Receivables</b>	<b>Payables</b>
Ultimate parent company	₩ 3,061,403	₩ 106,012,224	₩ 17,125,133	₩ 36,761,015
Affiliates	87,535,267	11,488,652	12,979,398	18,726,245
Entities under common control	64,973,083	51,389,387	13,888,884	13,378,757
	<u>₩ 155,569,753</u>	<u>₩ 168,890,263</u>	<u>₩ 43,993,415</u>	<u>₩ 68,866,017</u>

(\*1) Included sales and purchases transactions excluding receivables and payables between Visteon (VIHI, LLC), existing major shareholder and Visteon subsidiaries until the Company was disposed on June 8, 2015.

(\*2) Borrowings amounting to ₩16,232,460 thousand are included as payables as at December 31, 2015.

(\*3) Sales and purchases are amounts for the year ended December 31, 2014. Receivables and payables are amounts as at December 31, 2014.

(3) Significant compensations including pension benefits paid to key management personnel of the Group for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<b>2015</b>	<b>2014</b>
Executive compensation	₩ 836,938	₩ 3,264,539
Pensions	100,833	517,917
	<u>₩ 937,771</u>	<u>₩ 3,782,456</u>

Key management includes the registered directors who are responsible regarding plan, operation and control of the Group.

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**25. Expenses by Nature**

Expenses by nature for the years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>
Changes in inventories excluding raw materials, merchandises and supplies	₩ 17,296,050	₩	(23,843,580)
Purchase of raw materials and merchandises	3,644,963,044		3,541,102,514
Salaries and wages (including employee fringe benefits)	696,400,580		601,996,665
Retirement benefits (including other long-term employee benefits)	27,290,940		26,664,589
Depreciation	169,768,919		163,120,383
Amortization	4,111,053		2,260,626
Freight	133,981,987		120,439,049
Research and development costs (*)	31,073,872		179,639,683
Commission fees	153,290,918		132,083,938
Others	320,353,366		341,169,318
	<u>₩ 5,198,530,729</u>	<u>₩</u>	<u>5,084,633,185</u>

(\*) From 2015, the Group classifies the research and development expenditure by specific account.

**26. Operating segment information**

(1) Operating segment of the Group consists of one operating segment and accordingly, no information on operating segments have been disclosed.

(2) For the years ended December 31, 2015 and 2014, details of the Group's revenue are as follows (Korean in thousands):

	<u>2015</u>		<u>2014</u>
Sales of finished goods	₩ 5,469,955,985	₩	5,335,833,514
Sales of merchandise	52,290,702		79,600,623
Service revenue	35,834,184		39,515,321
<b>Total</b>	<u>₩ 5,558,080,871</u>	<u>₩</u>	<u>5,454,949,458</u>

(3) Sales by geographic information for the years ended December 31, 2015 and 2014 are as follow (Korean in thousands):

	<u>2015</u>		<u>2014</u>
Korea	₩ 1,554,978,411	₩	1,548,923,635
Europe	1,725,289,843		1,677,173,689
China	878,269,710		895,383,993
North America	821,658,064		723,268,076
Other Asian countries	577,884,843		610,200,065
<b>Total</b>	<u>₩ 5,558,080,871</u>	<u>₩</u>	<u>5,454,949,458</u>

(4) Sales to key customers representing 10% or more of the Group's total sales for years ended December 31, 2015 and 2014 are as follows (Korean won in thousands):

	<u>2015</u>		<u>2014</u>	
	Amount	Ratio	Amount	Ratio
Company A	₩ 1,104,962,541	19.9%	₩ 1,235,315,365	22.7%
Company B	1,215,231,737	21.9%	1,157,009,527	21.2%
Company C	1,156,609,648	20.8%	1,142,327,738	20.9%
<b>Total</b>	<u>3,476,803,926</u>	<u>62.6%</u>	<u>3,534,652,630</u>	<u>64.8%</u>

**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**27. Business combinations**

(1) Acquisition of thermal and emission businesses

The Group acquired the mobile heat managing and emission division of Cooper Standard Automotive Inc., a U.S. company, on July 31, 2014 for the purpose of increasing the Company's comparative advantage in mobile heat managing and emission and create synergies through integration with the Company's existing thermal energy division. The business combination was accounted for using the acquisition method in accordance with *KIFRS 1103 Business Combinations*.

Sales and profit for the year of the acquired division for the years ended December, 31, 2014 are as follows (Korean won in thousands):

<b>2014-1-1 ~ 2014-7-31</b>		<b>2014-8-1 ~ 2014-12-31</b>	
<b>Sales</b>	<b>Profit for the period</b>	<b>Sales</b>	<b>Profit for the period</b>
₩ 49,219,858	₩ 2,529	₩ 36,001,216	₩ (200,057)

Consideration given by the Group for the business combination amounted to ₩46,179,000 thousand.

Acquisition related costs amounted to ₩1,573,000 thousand and were charged to selling and administrative expenses and included as part of operating activities in the consolidated statement of cash flows for the current reporting period.

As at acquisition date, the net identifiable assets and liabilities recognized as a result of the business combination are as follows (Korean won in thousands) :

	<b>July 31, 2014</b>
Inventory assets	₩ 1,544,095
Property, plant and equipment	31,040,661
Intangible assets	8,038,148
Deferred tax assets	38,639
<b>Total assets</b>	<b>₩ 40,661,543</b>
Trade payables	1,544,095
Deferred tax liabilities	909,864
<b>Total liabilities</b>	<b>₩ 2,453,959</b>
Net assets	38,207,584
Aggregate consideration transferred	(46,179,000)
<b>Goodwill</b>	<b>₩ (7,971,416)</b>



**Hanon Systems Corp. and its subsidiaries**  
**Notes to the consolidated financial statements**  
**December 31, 2015 and 2014**

**27. Business combinations (cont'd)**

(2) Acquisition of subsidiaries

On August 31, 2014, the Group obtained control over Jie Xi Si (Nanjing) Automotive Climate Control Co., Ltd. ("Hanon Nanjing") by acquiring 51% of its shares. Hanon Nanjing was previously a wholly owned subsidiary of Japan Climate Systems Corporation (JCS), which is a joint venture investee of the Group through 33.33% equity ownership. The Business combination has been accounted for using the acquisition method in accordance with *KIFRS 1103* and non-controlling interests have been measured as fair value.

Sales and profit of Hanon Nanjing for the year ended December 31, 2014 are as follows (Korean won in thousands):

2014-1-1 ~ 2014-8-31		2014-9-1 ~ 2014-12-31	
Sales	Profit for the period	Sales	Profit for the period
₩ 24,419,389	₩ 3,429,404	₩ 13,235,742	₩ 997,943

Fair value of acquired trade receivables and other receivables is ₩10,877 million and equal to the total contract amount. There are no impaired trade receivables.

Consideration given by the Group for the business combination amounted to ₩7,098,156 thousand. Substantial cash outflow amounts to ₩1,130,837 thousand after deducting net cash and cash equivalents amounting to ₩5,967,319 thousand of the acquired subsidiary.

Acquisition related costs amounted to ₩256 million which were charged to selling and administrative expenses, and included as part of operating activities in the interim condensed consolidated statement of cash flows for the current reporting period.

As at acquisition date, the net identifiable assets and liabilities recognized as a result of the business combination are as follows (Korean won in thousands):

	<b>August 31, 2014</b>
Cash and cash equivalents	₩ 5,967,319
Trade receivables	10,788,007
Inventory assets	3,344,438
Property, plant and equipment	14,504,050
Intangible assets	401,005
Other assets	179,760
Deferred tax assets	509,844
<b>Total assets</b>	<b>₩ 35,694,423</b>
Trade payables	4,196,169
Other liabilities	2,474,095
Borrowings	17,302,120
Other debt	451,066
<b>Total liabilities</b>	<b>₩ 24,423,450</b>
Net assets	11,270,973
Non-controlling interests	(6,819,797)
Aggregate consideration transferred	(7,098,156)
<b>Goodwill</b>	<b>₩ (2,646,980)</b>

**28. Subsequent Events after reporting period**

On January 28, 2016, the Company issued the unguaranteed bond which amounts to ₩300,000,000 thousand for the purpose of early repayment of long-term borrowings, which will mature in May 2016. The details of the bond issuance are as follow (Korean won in thousands):

Description	Type	Issued amount	Repayment date
7-1	Unsecured/general	₩ 160,000,000	2019-01-28
7-2	Unsecured/general	140,000,000	2021-01-28
Total		₩ 300,000,000	