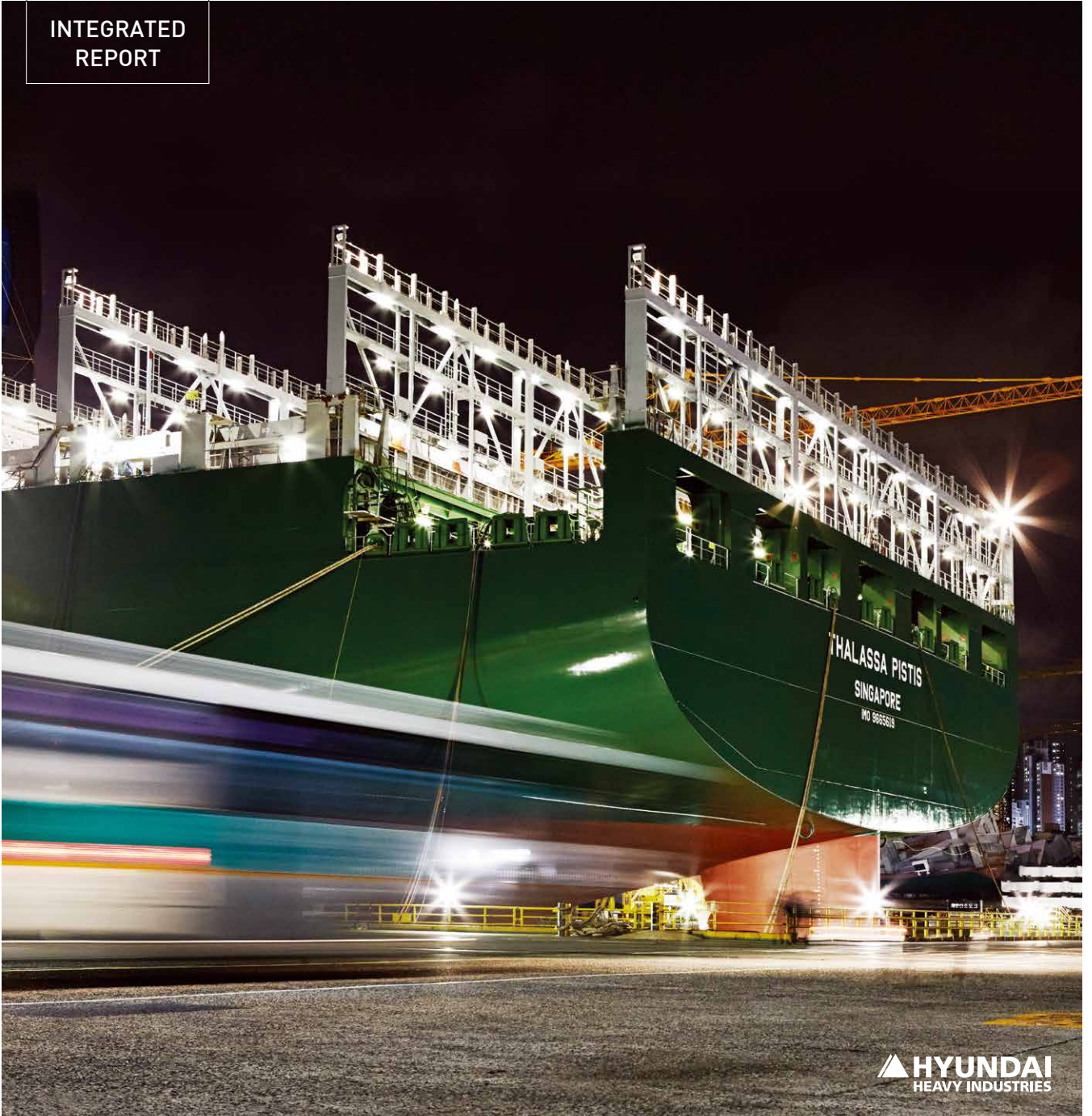


HHI

HEAD
HEART
IDEAL

INTEGRATED
REPORT



Report Profile

The 2017 HHI Integrated Report introduces activities and achievements of Hyundai Heavy Industries(HHI) in sustainable management. To provide relevant information to stakeholders, the core issues derived from materiality assessment were reported on the basis of five management philosophies. Moreover, we made a stronger delivery of both financial and non-financial information from a comprehensive point of view.

Reporting Period

Our report covers performance and activities from January 1 to December 31, 2016. Quantitative data from the last three years have been included to ensure a better understanding of changing trends. Business information as of April 2017 is also partially covered to provide timely information.

Reporting Scope

Our report concentrates on principles and major achievements of HHI's management activities, and the principles on economic, environmental and social responsibilities. Financial results are reported in the form of consolidated financial statement in accordance with the International Financial Reporting Standards(IFRS) while non-financial achievements refer to HHI(independent entity)'s management activities performed in South Korea.

Reporting Principle and Assurance

Our report was prepared against the following global guidelines:

- Global Reporting Initiative(GRI) G4 Guideline
- International Integrated Reporting Council(IIRC)'s integrated reporting framework

To ensure objectivity, fairness and reliability of the contents, this report was reviewed by Samil PwC, an independent assurance firm.

HHI

HEAD
HEART
IDEAL

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REPORT



2017 HHI INTEGRATED REPORT

2017 HHI Integrated Report Outline

Part 1.

Company and business profile, governance, global network and shared values

Part 2.

Financial performance and stock information

Part 3.

Sustainable management activities and achievements based on the five management philosophies

Part 4.

Financial statements, third-party assurance report, GRI G4 Guidelines index and other supplementary information



Cover Story

HHI(HEAD, HEART, IDEAL)

The slogan conveys HHI's aspiration to create the ideal future with rational thinking and a warm heart.

Cover Photo

HHI's shipyard brightens up the dark night.

PROGRAM

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	/ Engine & Machinery / Electro Electric Systems
	/ Construction Equipment / Green Energy
	/ Oil Refining & Petrochemical / Financial Services

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Part. 01

OVERVIEW

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CEOs' Message



Dear stakeholders,

With deep sincerity, we would like to thank you for your cordial support for HHI.

HHI issues the annual Integrated Report in order to share our sustainable management activities performed throughout the year with the stakeholders. This report describes the philosophy and achievements in sustainable management that every employee should share and practice to fulfill corporate social responsibilities.

The year 2016 was another challenging year for HHI given the unprecedented slump in the shipbuilding industry in the midst of global economic recession. HHI strived to turn crisis into opportunities by launching pre-emptive management improvement plans under uncertain circumstances. Consequently, the operating income exceeded KRW 1 trillion for the first time in four years. While the figure itself is not quite satisfying, we have concluded the year as a meaningful steppingstone for rebound.

With these achievements, we plan to sustain our efforts to secure competitive edge in economic, environmental and social aspects, and

create new value for our clients. As the first step, HHI's six business sectors will initiate their new journey as an independent entity by spinning off from HHI this year. Each of the new entities will improve transparency in corporate governance and enhance the value of each business to bring greater value to the shareholders.

Moreover, we will fulfill our environmental and social responsibilities with our best effort to realize a sustainable community. HHI has continuously invested in minimizing environmental impacts. This includes assessment and improvement of environmental risks in our main operation sites as a part of integrated environmental management and reduction of greenhouse gas emissions. Also, we are expanding our effort to provide a greater variety of environmentally friendly products that comply with international environmental regulations. HHI will continue to reinforce its competency in eco-friendly shipbuilding by developing highly efficient and eco-friendly technologies such as ballast water treatment system, LNG fuel supply system and exhaust gas reducers.

HHI is firmly committed to creating a safe, accident-free work environment. To prevent accidents and establish a culture of safety, a comprehensive improvement policy was set up in 2016, introducing Safety Golden Rules and Immediate Reward System. This year HHI established a safety experience center using VR technology, and the integrated control center that would serve as the safety control tower for the entire company.

Finally, HHI practices strong ethics and compliance management to establish a clean and transparent corporate culture. In 2016, the application of the compliance guideline for the anti-graft law was extended to include our subcontractors and partners to form a common ethical standard for co-existence. We also executed internal education and evaluation on the law to prevent the risk of law violation and enhance the compliance awareness among our employees. Going forward, HHI will continue to monitor and support its group companies and partners in executing socially responsible management, strengthening the overall sustainability of the group.

Dear stakeholders, HHI finds itself at a critical juncture determining whether we can step up to the next level. We seek your continued trust and support so that our effort to pioneer a better future will bear meaningful results.

Each and every employee at HHI will take the initiative to make changes and strive their best to build a better future with you.

Thank you.

Company Profile

General Information

Company Name	Hyundai Heavy Industries Co., Ltd.
Date of Establishment	December 28, 1973
CEO	Kwon Oh-gap, Kang Hwan-goo
Number of Employees	23,077(As of December 31, 2016) - Regular: 21,351 / Non-Regular: 1,726
Head Office	1000, Bangeojinsunhwan-doro, Dong-gu, Ulsan, Republic of Korea, 44032
Telephone	+82-52-202-2114
Website	www.hyundaiheavy.com

Business Divisions and Major Affiliates

Business Divisions

Shipbuilding	Offshore & Industrial Plant	Engine & Machinery
Electro Electric Systems	Construction Equipment	

Major Affiliates

Hyundai Samho Heavy Industries Co., Ltd.	94.92%		
Hyundai Mipo Dockyard Co., Ltd.	42.34%		
Hyundai E&T Co., Ltd.	100.00%	HI Investment & Securities Co., Ltd.	85.32%
		HI Asset Management Co., Ltd.	92.42%
Hyundai Global Service Co., Ltd.	100.00%		
HHI Green Energy Co., Ltd.	100.00%		
Hyundai Material and Service Co., Ltd.	100.00%		
Hyundai Oilbank Co., Ltd.	91.13%		
Hyundai Cosmo Petrochemical Co., Ltd.	50.00%	Hyundai & Shell Base Oil Co., Ltd.	60.00%
Wartsila Hyundai Engine Co., Ltd.	50.00%		

* The percentages refer to Hyundai Heavy Industries' stake in the affiliates.(As of Dec 31, 2016)

* For further information on Hyundai Heavy Industries' affiliates, please visit the HHI's website:
www.hyundaiheavy.com

(As of December 31, 2016)

Unit: mil. KRW

Total Equity	Consolidated	17,889,752
	Separate	13,819,537

Unit: mil. KRW

Total Liabilities	Consolidated	31,359,424
	Separate	15,747,352

Unit: mil. KRW

Sales	Consolidated	39,317,290
	Separate	19,541,422

Unit: mil. KRW

Operating Profit	Consolidated	1,641,853
	Separate	379,153

Credit Rating	Corporate Bond	A
	Commercial Paper	A2

※ Robotics, Electro Electric Systems and Construction Equipment divisions have become independent corporations upon spin-off in April 2017. For more details, refer to <Change and Innovation> on page 42. This page reports information on major affiliates and financial results before the spin-off.

Value Chain

HHI generates values with high expertise and resources. The six resources utilized in the operation of HHI are the core factors that drive economic, environmental and social outputs. HHI distributes the generated value to the stakeholders based on the business model of each sector along with the management philosophy and vision.

Input

Financial Capital

- Floated in the Korean stock market in 1999
- Financing from shareholders and investors for business operation
- Number of issued shares: 76,000,000
- Management disclosure by shareholders' meeting and IR news

Manufacture Capital

- Production of ships, offshore plants, engine & machinery, industrial robots, solar cell/modules, etc.
- Production capacity of main products(as of December, 31 2016):
 - Shipbuilding: 16.77 million GT(including affiliates)
 - Engine & Machinery: 16 million HP
 - Oil: 142,740 thousand barrels

Intellectual Capital

- Acquisition of technology to build competency in the market: reinforcing R&D capacity
- 2016 R&D investments: KRW 194 billion
- R&D organizations: Corporate Research Center, Business Division Research Institutes, etc.

Human Capital

- Executives and employees(as of December 31, 2016)
 - Board of Directors: 3 internal directors, 4 outside directors
 - Employees: male 21,709/female 1,368, 15.4 years of average tenure

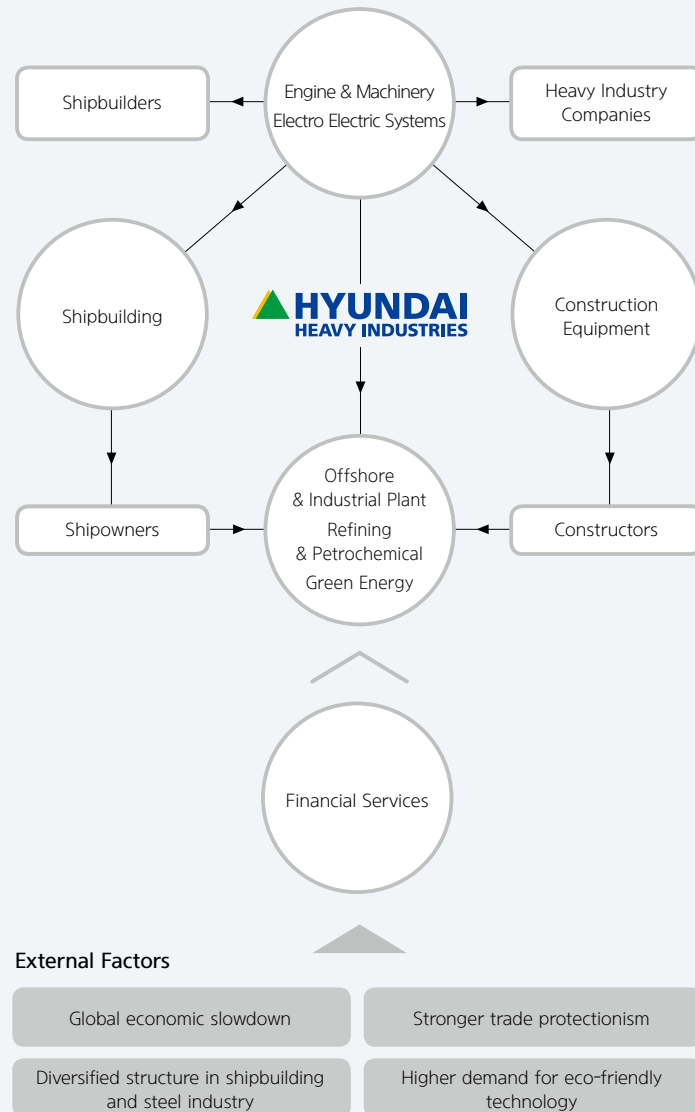
Social Relations Capital

- Communication channels including general shareholders' meeting, after-sales service and Group Shared Development Committee to enhance the stakeholder's value and satisfy their demands

Environmental Capital

- Certified to ISO 14001, an environmental management systems standard, since 1997
- Certified to ISO 50001, an energy management systems standard, since 2013
- Environmentally friendly policies on greenhouse gas reduction and green purchasing

Business



Output

Financial Capital(Consolidated)

- 2016 Sales: KRW 39,317 billion
- 2016 Operating profit: KRW 1,642 billion
- 2016 Total asset: KRW 49,249 billion

Manufacture Capital

- Production performances in 2016
 - 58 ships(including affiliates)
 - 272 two-stroke engines, 710 four-stroke engines
 - 30,865 units of construction equipment

Intellectual Capital

- Patents issued in 2016: 763
- Greatest number of World-Class Product of Korea: 48(including subsidiaries)
- Number of skills managed by the "Core Skill Transfer Program" in 2016: 127

Human Capital

- Cumulative number of employees qualified with master craftsmanship: 686
- Cumulative number of employees awarded in the *WorldSkills Competition*: 93

Social Relations Capital

- No.1 market share in shipbuilding industry(2016 Clarksons Report)
- No.1 market share in two-stroke engine industry
- Ranked 237th in the *2016 Fortune Global 500*

Environmental Capital

- 2016 greenhouse gas emission: 897,225 tCO2e(decreased 6.5% year-on-year)
- Environmental investments: KRW 18.4 billion

Main Products and Services

Shipbuilding

Oil tankers, containerships, bulk carriers, LNG · LPG carriers, petrochemical carriers, semi-submersible drilling rig, special purpose ship

Offshore & Industrial Plant

Oil and gas production facilities, subsea pipelines and offshore installations, power plants, process plants, utility and industrial boilers, process equipment, specialized equipment

Engine & Machinery

Two-stroke & four-stroke marine engines and components, propellers, engine power plants

Robotics

Car assembly robots, LCD handling robots

Electro Electric Systems

Electrical equipment(transformers, GIS), rotating machinery(motors, generators), power distribution equipment(switchboards, low and medium voltage circuit breakers, power controls)

Construction Equipment

Excavators, wheel loaders, forklifts, tow and transport vehicles, order pickers, skid steer loaders

Green Energy

Solar modules and systems

Refining & Petrochemical

Gasoline, diesel, kerosene, fuel oil, BTX, LPG, jet fuel, lubricants

Financial Services

Fund, trust & wrap, retirement pension, stock futures and options, corporate finance

Outcome

Customers

Providing products and services that satisfy customer needs

Shareholders & Investors

Enhancing and protecting the shareholders' value

Partners

Improving financial health and supporting competition of the partners

Communities

Making social contribution to the local communities

Industries

Creating an industrial ecosystem for fair competition

Employees

Achieving higher employee satisfaction by supporting talent development and improving welfare and working environment

Shared Values

Hyundai Spirit

The key to our success lies in the “Hyundai Spirit” created by HHI’s founder, Chung Ju-yung. He firmly believed that we can accomplish anything that is thought to be theoretically impossible by exploiting our unlimited potential and unwavering drive.



Creative Wisdom

Wisdom to seek novelty and innovation to meet the needs of customers and our society



Positive Thinking

Attitude to face challenges with a strong sense of ownership



Unwavering Drive

Power to achieve goals with a strong spirit and indomitable will

Management Vision

We aim to become the top global leading heavy industries company, under the vision of “Global leader, We Build a Better Future.” We are committed to impressing our customers, rewarding our employees, and satisfying our shareholders by improving corporate value.

Global Leader, We Build a Better Future

1. Satisfying customers with the best technology and the highest quality
2. Creating a workplace that rewards self-achievement
3. Increasing corporate value through world-class core business

Management Philosophy

We have established five management philosophies that must be shared and practiced by all employees to fulfill our corporate social responsibility.

1. **Enhancing Corporate Value Through Continual Growth**
 - Actively seeking out and cultivating businesses with growth potential
 - Ensuring core competencies for future growth
 - Building flexible business management systems
 - Establishing solid global business organizations
2. **Upholding Fair and Transparent Business Practices**
 - Respecting the law and practicing proper business ethics
 - Supporting open and fair competition
 - Fostering fair business relationships with suppliers
3. **Pursuing Safe and Environmentally Friendly Business Practices**
 - Providing pleasant and safe work environments
 - Preventing accidents through our strong Safety Code
 - Developing and adopting environmentally friendly technologies
 - Implementing environmentally friendly production activities
4. **Upholding a Company Culture of Mutual Respect and Trust**
 - Fostering a vibrant organizational culture based on trust and equality
 - Performing all duties and responsibilities to enhance corporate competitiveness
 - Striving to improve the quality of life of our employees and encouraging employee self-development
5. **Contributing to the Development of A Society as a Global Corporate Citizen**
 - Enhancing community culture and welfare
 - Contributing to national development through job creation and the payment of taxes
 - Contributing to human prosperity by creating products valued by people throughout the world

Governance

Board of Directors

As of March 31, 2017, HHI's Board of Directors(BoD) consists of three internal and four outside directors, with three subcommittees.

To ensure transparent corporate governance, HHI abides by the regulations that require more than half of BoD members to be outside directors. The BoD has authority to vote for matters mandated from the shareholders' meeting and basic principles of corporate operation. The directors also have rights to appoint CEO and Chairman of the Board as well as responsibility to oversee the duties of executives.

Current Directors

(As of March 31, 2017)

Type	Name	Gender	Position	Current Occupation	Previous Experience	Appointed Date
Internal Director	Kwon Oh-gap	M	Chairman	Vice Chairman & CEO of HHI	President & CEO of HHI	March 25, 2016
	Kang Hwan-goo	M	Director	President & CEO of HHI	President & CEO of HMD	March 24, 2017
	Ka Sam-hyun	M	Director	President & COO of HHI	Senior Executive Vice President of HHI	March 24, 2017
Outside Director	Yoo Kook-hyun	M	Director	Attorney at Kim & Chang	Deputy Chief Prosecutor of the Suwon District	March 27, 2015
	Hong Kee-hyun	M	Director	Dean of Social Science School at Seoul National University	Head of Academic Affairs at Seoul National University	March 25, 2016
	Kim Seok-dong	M	Director	Chairman, JIPYONG Institute of Humanities and Society	Chairman of the Financial Services Commission	March 25, 2016
	Choi Hyuk	M	Director	Professor of Business School, Seoul National University	Non-Executive Commissioner at Securities & Futures Commission	March 24, 2017

Board of Directors(BoD) Subcommittees

Name of Committee	Objective and Authority
Audit Committee	Audit duties of directors, access authority to material and information required for audit
Outside Director Recommendation Committee	Recommendation of suitable candidates for outside directors
Internal Trade Committee	Establishment of basic policies on internal transactions, inspection of counterparty selection standards and operation status

Status of Committee Directors

Type	Name and Position	Audit Committee	Outside Director Recommendation Committee	Internal Trade Committee
Internal Director	Kwon Oh-gap, Chairman		○	
	Kang Hwan-goo, Director			○
	Ka Sam-hyun, Director			
Outside Director	Yoo Kook-hyun, Director	○	○	○
	Hong Kee-hyun, Director	○		○
	Kim Seok-dong, Director		○	
	Choi Hyuk, Director	○		○

Key Decisions Made in 2016

Date of Board Meeting	Key Agenda Item
February 4, 2016	• Approval of 42nd financial statements
February 25, 2016	• Approval of financing to Hyundai Heavy Industries TMC
March 25, 2016	• Appointment of the Chairman of the BoD • Appointment of Internal Trade Committee directors
April 26, 2016	• Approval of issuing foreign currency bond
July 27, 2016	• Approval of disposing Hyundai M Partner's stocks • Approval of purchasing the factory owned by Hyundai Cummins Engine
November 15, 2016	• Approval of asset injection to green energy & service business • Approval of the spin-off plan
December 16, 2016	• Approval of 2017 management plan • Approval of setting the limit on short term bonds

Expertise and Independence

Before appointing an outside director, the BoD discloses the candidate's personal information, his or her nominator and his or her relationship with the majority shareholder through a general shareholders' meeting notice, thereby maintaining its independence. The outside directors are screened to ensure that the candidates have the expertise to contribute to our management goals. The current four outside directors are experts in business administration, economics and law to ensure rational decision making, thus enhancing professionalism in the way the company is managed.

Operation

The regular BoD meeting is held during the first month of each quarter. If necessary, a special meeting can be convened. For operational efficiency, it is stipulated that all or some directors can participate in meetings via telecommunication devices when they cannot afford to attend the meetings in person. The BoD held 11 meetings in 2016 to make 32 resolutions, including approvals on spin-off of businesses and 2017 management plan. The attendance rate of outside directors was 95.1% in 2016.

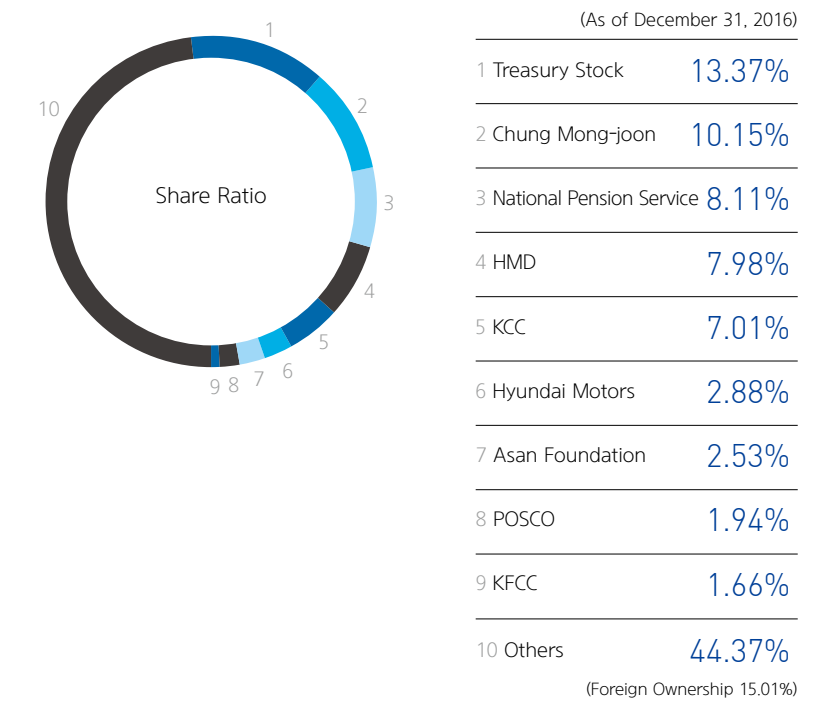
Remuneration

The remuneration of internal and outside directors is decided in accordance with Article 388 of the Commercial Act and Article 41 of HHI's Articles of Incorporation. The remuneration is paid within the director pay limits approved at the general shareholder's meeting, and the retirement package is paid in accordance with the executive severance pay regulations approved at the general shareholders' meeting.



Shareholders

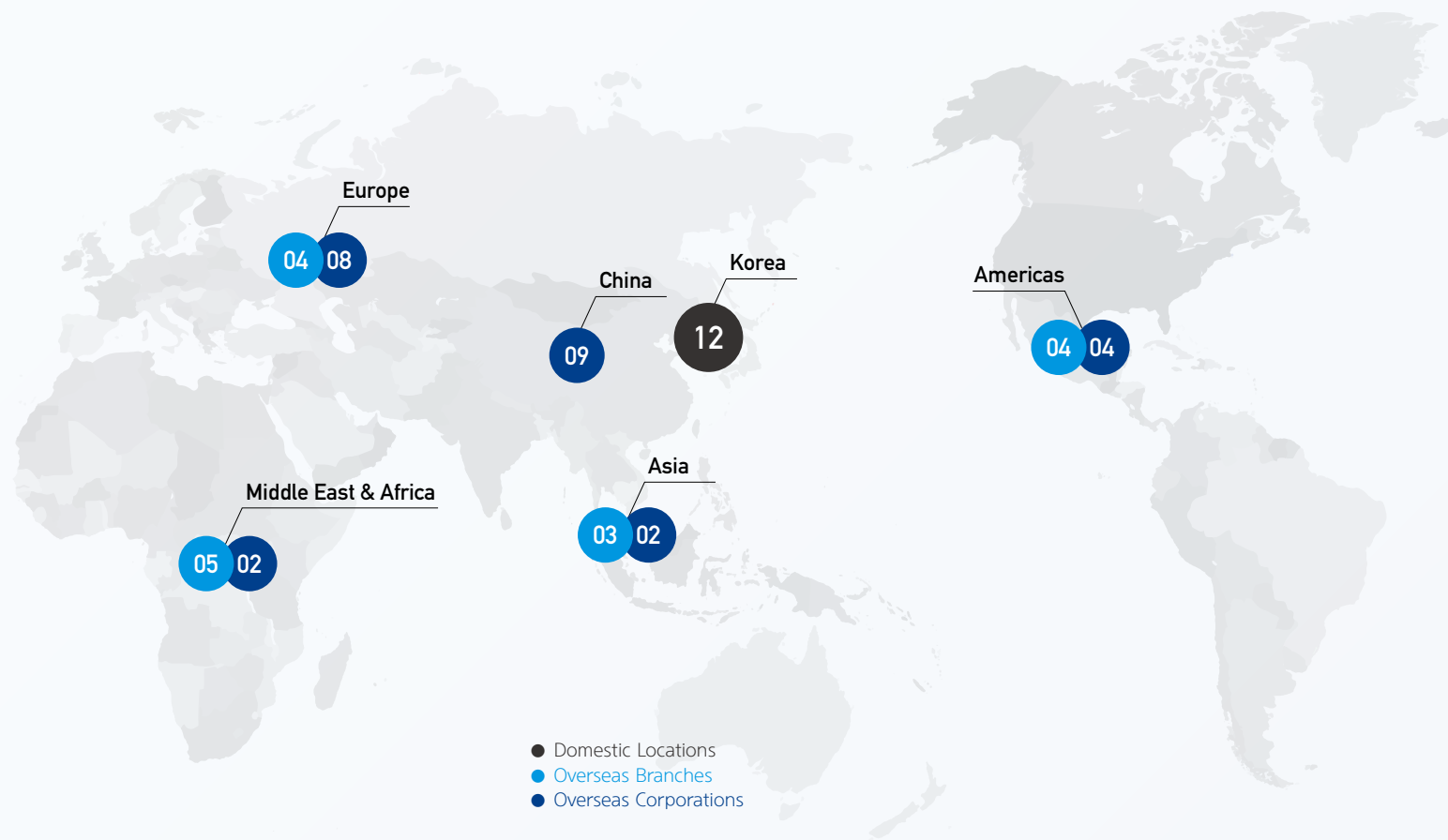
As of December 31, 2016, HHI's outstanding shares are 76 million, which is equivalent to 47.5% of authorized number of share to be issued according to the article of incorporation. Outstanding shares with voting rights are 59,779,523 shares, excluding 10,157,477 shares of treasury stock and 6,063,000 shares owned by HMD. The minority shareholders are protected by the Commercial Act and other relevant regulations. Meanwhile, we convene the general shareholders' meeting every year to report the management status and to receive shareholders' feedback and opinions. We also disclose our business status transparently via monthly IR news and IR meetings.



(As of December 31, 2016)

Global Network

Through our global network, we are able to create synergies between our business divisions and deliver products and services to our customers around the world.



Domestic Locations

Ulsan

Head Office
1000, Bangeojin Sunhwan-doro, Dong-gu, Ulsan
Offshore & Engineering Yard
400, Bangeojin Sunhwan-doro, Dong-gu, Ulsan
Yongyeon Factory
800, Cheoyong-ro, Nam-gu, Ulsan
Seonam Factory
223, Sapyeong-ro, Nam-gu, Ulsan
Onsan Yard
72, Yeonja-ro, Onsan-eup, Ulju-gun, Ulsan

Gyeongju

Naengcheon Distribution Center
195-17, Naengcheonjenaegongdan-gil, Oedong-eup, Gyeongju-si, Gyeongsangbuk-do
Offshore Pipe Fabrication Shop
50, Yeongji-ro, Oedong-eup,

China

Corporations

- Yantai Hyundai Heavy Industries Co., Ltd.(Yantai)
- HHI(China) Electric Co., Ltd.(Yangzhong)
- HHI(Shanghai) R&D Co., Ltd.
- Beijing Hyundai Jingcheng Construction Machinery Co., Ltd(Beijing)
- Changzhou Hyundai Hydraulic Machinery Co., Ltd.(Changzhou)
- Hyundai(Jiang Su) Construction Machinery Co., Ltd.(Changzhou)
- Hyundai(Shandong) Heavy Industries Machinery Co., Ltd.(Taian)
- HHI China Investment Co., Ltd.(Shanghai)
- Hyundai Financial Leasing Co., Ltd.(Shanghai)

Gyeongju-si, Gyeongsangbuk-do
Offshore Pipe Painting Shop
293-15, Naeoi-ro, Oedong-eup, Gyeongju-si, Gyeongsangbuk-do

Gunsan

Gunsan Shipyard
625, Seohae-ro, Gunsan-si, Jeollabuk-do
Wind Power Production Factory
232, Dongjangan-ro, Gunsan-si, Jeollabuk-do

Eumseong

Eumseong Factory
313, Soi-ro, Soi-myeon, Eumseong-gun, Chungcheongbuk-do

Seoul

Seoul Office
Hyundai Building, 75, Yulgok-ro, Jongno-gu, Seoul

Asia

Branches

- Tokyo, Japan
- Osaka, Japan
- Singapore

Corporations

- Hyundai Construction Equipment India Pvt., Ltd. (Pune, India)
- Pt. Hyundai Machinery Indonesia(Jakarta, Indonesia)

Europe

Branches

- London, UK
- Oslo, Norway
- Athens, Greece
- Moscow, Russia

Corporations

- HHI France SAS(Neuilly-sur-Seine, France)
- Hyundai Global Service Europe B.V.(Rotterdam, the Netherlands)
- HHI Co. Bulgaria(Sofia, Bulgaria)
- Hyundai Electrosystems Co., Ltd.(Primorsky Krai, Russia)
- Hyundai Technologies Center Hungary Ltd.(Budapest, Hungary)
- HHI Europe N.V.(Geel, Belgium)
- Hyundai Mikhailovka Agro Ltd.(Primorsky Krai, Russia)
- Hyundai Khorol Agro Ltd. (Primorsky Krai, Russia)

Middle East, Africa

Branches

- Dubai, UAE
- Jebel Ali, UAE
- Riyadh, Saudi Arabia
- Al Khobar, Saudi Arabia
- Luanda, Angola

Corporations

- HHI Co., Nigeria Ltd.(Lagos, Nigeria)
- Hyundai Arabia Co., Ltd.(Al Khobar, Saudi Arabia)

Americas

Branches

- New Jersey, US
- Houston, US
- Atlanta, US
- Mexico

Corporations

- Hyundai Ideal Electric Co.(Ohio, US)
- Hyundai Power Transformers USA, Inc. (Alabama, US)
- Hyundai Construction Equipment Americas, Inc. (Atlanta, US)
- HHI Brasil(Rio de Janeiro, Brazil)

Domestic Workplaces

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Overseas Branches

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Part. 02

BUSINESS REVIEW

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Shipbuilding / Offshore & Industrial Plant
/ Engine & Machinery / Electro Electric Systems
/ Construction Equipment / Green Energy
/ Oil Refining & Petrochemical / Financial Services



Stock Information

Domestic Stock Market Review

In 2016, KOSPI Index fluctuated by 11.9% under unstable financial market conditions. The index reached year-low 1,835 during Q1 due to North Korea risks including the closure of Gaesung Industrial Complex, and continued to fall in Q2 following the Brexit. In spite of domestic and international political instability in Q3 like THAAD and US presidential election, etc., KOSPI index started to climb in an anticipation for economic recovery. In 2016, KOSPI index closed at 2026.46 and market capitalization reached KRW 1,300 trillion for the first time in its history.

2016 KOSPI	Yearly Peak	2,069
	Yearly Trough	1,835

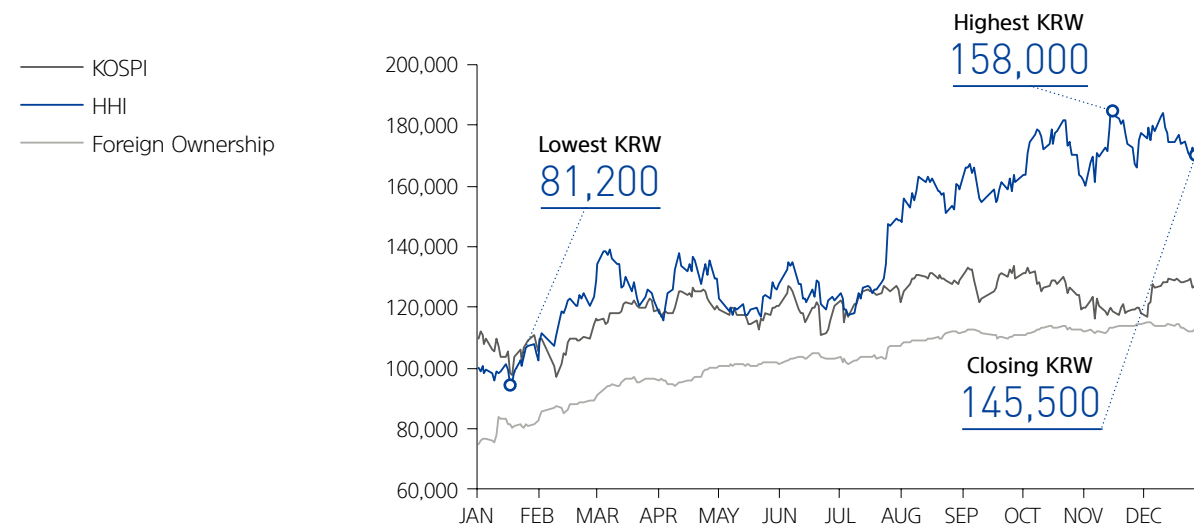
HHI Stock Performance

Confronting a stagnation of shipbuilding and shipping industry impacted by global recession, HHI experienced a particularly difficult year. There had been a significant decrease in new orders and austerity management following restructuring of shipbuilding industry. However, we took pre-emptive actions such as disposal of non-core asset and cost reductions, which had substantially improved the financial stability. As a result, HHI finally turned into surplus in Q1 in the 10th quarter and kept profitable for the four consecutive quarters, generating the operating income of KRW 1,641.9 billion(based on 2016 consolidated financial statement). HHI stock price began the year with KRW 85,500 per share and reached the year-low during January with KRW 81,200, but soon bounced back with strong performance and reached KRW 100,000 per share in February. With the announcement of business spin-off in November, HHI stock price surged to KRW 158,000 per share and closed at KRW 145,500, with 76.2% year-over-year increase.

HHI Stock Overview

Category	Unit	2014	2015	2016
Face Value	KRW	5,000	5,000	5,000
Number of Issued Shares	Shares	76,000,000	76,000,000	76,000,000
Market Cap(Close of KRX)	bn. KRW	8,740	6,672	11,058
Stock Price(As of the last trading day)				
Highest		253,500	153,500	158,000
Lowest	KRW	95,100	81,200	81,200
Closing Price		115,000	87,800	145,500
Foreign Ownership	%	12.1	9.8	14.9
Dividend per Share	KRW	-	-	-
Dividend Payout Ratio	%	-	-	-

2016 KOSPI Index, HHI Stock Price, Foreign Ownership



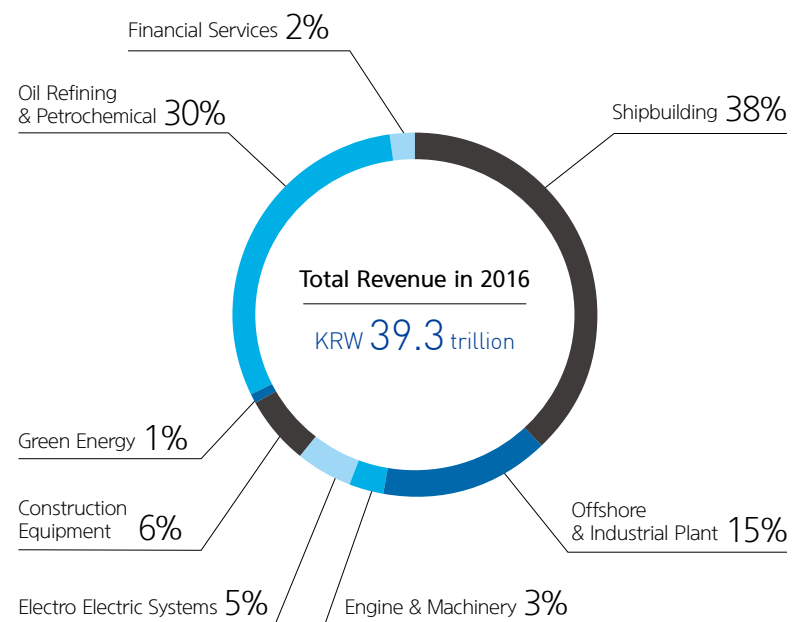
Business Overview

2016 Market Condition

The world economy continued its slow growth at a rate of 3.1% in 2016, due to the low interest rate policies in developed countries and sluggish economic growth of the emerging markets. The European financial crisis coupled with Brexit added more uncertainties to the market, and China recorded the lowest growth rate in history for the slowdown of Chinese economy. These elements resulted in lower cargo volumes, which consequently lowered new orders, investment and demand for facilities and equipment. The oil price dropped to USD 26 per barrel, but bounced back to USD 50 range as OPEC and non-OPEC countries agreed to cut back the supply in December. HHI was faced with difficulties in contracting offshore plants as low oil prices suspended large offshore projects.

However, demands for green technology had been increased following the reinforcement of environmental regulations worldwide. Eco-ship and products equipped with eco-friendly technology met the needs of customers and drew a good reaction in the market.

Revenue by Division



Business Performance by Division

Shipbuilding

- Revenue: KRW 14,679.4 bil. / New orders: 64 ships, USD 5.91 bil.(Based on 3 shipbuilding affiliates)
- Orderbook: 273 ships, USD 23.75 bil.(As of Dec. 2016)
- Delivered LNG carrier equipped with the world's best boil-off gas reliquefaction system

Offshore & Industrial Plant

- Revenue: KRW 5,870.8 bil. / New order: USD 710 mil.(Offshore: USD 39 mil., Industrial Plant: USD 32 mil.)
- Completed module fabrication for the Gorgon LNG Project and delivered 3 offshore projects
- Completed Az-Zour North Independent Water & Power Plant Project in Kuwait

Engine & Machinery

- Revenue: KRW 1,387.9 bil. / New order: USD 979 mil.
- Two-stroke engine: 272 units(767mil. bhp), Four-stroke engine: 710 units(1.74mil. bhp)
- Produced 10,000 HiMSEN engines
- Developed and supplied green LNG fuel gas supply system, ballast water treatment system, etc.

Electro Electric Systems

- Revenue: KRW 2,143.8 bil. / New order: USD 1.69 bil.
- HG-Series Medium/Low Voltage Circuit Breakers won the iF Design Award

Construction Equipment

- Revenue: KRW 2,171.3 bil. / New order: USD 1.62 bil.
- 45% increase in excavator sales in India
- Entered a strategic alliance for mini excavators with CNHI

Green Energy

- Revenue: KRW 325.3 bil. / New order: USD 277 mil.
- Expanded high-efficiency PERL Cell production

Oil Refining & Petrochemical

- Revenue: KRW 11,672.8 bil. / Operating Profit: KRW 967.1 bil.
- 11% increase in sales, Highest heavy oil upgrading ratio in Korea(39.1%)

Financial Services

- Revenue: KRW 775.3 bil. / Operating Profit: KRW 24.3 bil.
- Restructuring for management efficiency, founding new Sales & Trading HQ and Product Strategy Department
- Task force for retail competency, appointment of the first female branch manager, and shift in generation of branch manager positions

Shipbuilding



2016 Performance Review

In 2016, HHI shipbuilding group (including HSHI and HMD) won 64 orders (USD 5.9 billion) and sales revenue of KRW 14,679.4 billion. Orderbook as of 2016 year-end was 273 ships (USD 23.7 billion), which can keep HHI shipyards operating for the next 1.5 years. Amid challenging market conditions, HHI made significant accomplishments with agile responses based on our leadership in quality and technology. After lifting the Iranian economic sanctions, HHI won the large-scale orders for four ultra-containerships and six mid-sized product/chemical tankers through long-standing cooperative relationship with Iranian shipping companies. HHI's product and cost competitiveness and technological superiority added newbuilding orders for very large crude oil carriers, LNG FSRUs and large LPG and LNG carriers. To cope with increasing demand of gas-fueled ships, HHI has successfully made inroads into the LNG bunkering ship market.

2017 Outlook and Plan

An increase in raw material imports of China and extension of investments in oil and gas industry in US under the new Trump administration are positive influences on the cargo volume. New LNG carrier order associated with US LNG manufacture project is anticipated. Discussions on a new order of mega containerships by the shipping alliance, delayed last year, are also likely to resume.

The Shipbuilding Division targets to make sales of KRW 9.2 trillion with a delivery of 158 ships (USD 12.4 billion). HHI will focus on LNG carriers and tankers, and give impetus to sealing more LNG FSRU orders and increase the market share with HHI's competitive advantage. In addition, HHI will closely work with shipping companies to capture new demands for mega containerships at an early stage. HHI will provide a comprehensive solution in response to reinforced environmental regulations with state-of-the-art technology.

Offshore & Industrial Plant



2016 Performance Review

In 2016, the Offshore and Industrial Plant Divisions generated the revenue of KRW 5.87 trillion. The Offshore & Engineering Division won new orders worth USD 395 million from change orders. Module fabrication for the Gorgon LNG Project was completed, and three offshore platforms were delivered.

The Industrial Plant Division received new orders worth USD 316 million by selecting lucrative projects and diversifying risks through co-bidding with advanced enterprises. HHI was awarded contracts to build the RFCC project in Nigeria and the satellite launching pad project for the Korea Aerospace Research Institute. HHI demonstrated its technology upon winning two vacuum vessel sectors, the core component of ITER project, after the same order in 2010.

2017 Outlook and Plan

Small or mid-size projects of offshore plants in the North Sea, Gulf of Mexico, Malaysia and Australia are expected

to resume, in response to energy industry's cost reduction efforts and rebounded oil price. The division target for year 2017 is to achieve the sales of KRW 2.57 trillion and to win new orders worth USD 1.6 billion. HHI will regain competitiveness by optimizing manpower, standardizing design, procuring more local resources, improving construction methods and establishing strategic partnerships.

For onshore plants, steady orders in power plant and modernization/expansion of oil and gas plants are anticipated. Manufacturing orders for main equipment from the Middle East, Africa, and Southeast Asia remain favorable and demand will increase from CIS countries and Latin America. In 2017, the Industrial Plant Division targets to generate revenue of KRW 1.63 trillion and to win new orders worth USD 500 million. Power plant projects will mainly consist of extension works of the existing projects and independent power plant (IPP) projects. For the processing plants, the division will reduce risks and improve design and project management capabilities in partnership with advanced contractors.

Engine & Machinery

2016 Performance Review

In 2016, the Engine & Machinery Division won orders worth USD 979 million and achieved the revenue of KRW 1.39 trillion. As the top marine engine builder, HHI's Engine and Machinery Division produced 272 two-stroke engines(7.67 million bhp) and 710 four-stroke engines(1.74 million bhp). Preparing for stringent international environmental regulations, the division kept poised to develop and provide eco-friendly marine products such as LNG fuel gas supply systems, NOx reduction device and ballast water treatment systems. HHI also successfully manufactured the world's first high-pressure selective catalytic reduction(HP SCR) system, designed to reduce nitrogenous compound emissions.

2017 Outlook and Plan

In 2017, with the shipbuilding industry's anticipation to revive backed up by base effects and easing supply

surplus, newbuilding orders are expected to rebound, but fierce competition will be inevitable with an excessive supply in marine engines. In particular, Chinese vendors are likely to win more orders benefited from their government's protectionism. Although gas and dual-fuel(DF) enginepower plant markets are expected to grow, final investment decisions are uncertain due to economic recessions.

In 2017, the Engine & Machinery Division targets to generate revenue of KRW 1,721.7 billion and win orders worth USD 1.55 billion while building 181 two-stroke engines(5.58 million bhp), 511 four-stroke HiMSEN engines(1.52 million bhp), and 157 marine propellers. The division will strive to meet its annual target by improving the price competitiveness through cost reduction; intensifying sales activities on products with competitive advantages in the markets; and strengthening R&D commitment for eco-friendly marine engines and systems to respond to higher demand green technology.

Electro Electric Systems

2016 Performance Review

In spite of unfavorable market conditions like intense price competition and declining orders amid global recession, the Electro Electric Systems Division won orders worth USD 1.69 billion and generated KRW 2.14 trillion revenue in 2016. Power equipment, rotating machinery, and power distribution equipment won orders worth KRW 1,158 billion, 324.8 billion and 476.7 billion, respectively.

HHI successfully released HG-Series Medium/Low Voltage Circuit Breakers in 2015, and won the acknowledgment of the global market by winning the iF Design Award 2016 in Germany, which is one of the three major design awards.

2017 Outlook and Plan

Depreciation in Euro, deepening competition and a stronger sense of protectionism around the globe will create unfavorable market conditions. However,

massive infrastructure investment and energy development plans from US. will increase demands from the region. Demand for replacement of old power facilities in the US and European markets is expected to continue. As the oil price rebounded to USD 50 per barrel, new orders for electric equipment will pick up, and increasing demands from emerging markets the industrialization will continue to provide opportunities for new ordersIn 2017, Electro Electric Systems Division aims to generate revenue of KRW 2.4 trillion, with orders worth USD 2.19 billion. The division will step up its efforts to obtain new orders by securing long-term contracts extending the existing contracts with prime customers, identifying new potential customers in the market and strengthening the partnership with major EPC Contractors. In addition, after the spinning-off from HHI, the newly established Hyundai Electric & Energy Systems will hone its competitive edge based on optimized business structures as a new independent entity.



Construction Equipment



2016 Performance Review

In 2016, the Construction Equipment Division recorded KRW 2.17 trillion revenue and orders worth USD 1.62 billion. In particular, the excavator sales in India increased rapidly 45% year-on-year and the division solidified its position as the second largest vendor in the Indian market. HHI also strived to hold its place in the market by entering long-term contracts with global transportation equipment companies to expand mini-excavator sales.

As a leading company in smart construction equipment, it developed a remotely controllable mobile system called 'Hi-MATE' that offers better service in data collection and analysis and higher convenience in operation.

2017 Outlook and Plan

In 2017, the US market is expected to display a higher demand with infrastructure expansion, and the

European market is also expected to grow mainly based on France and Southern Europe. Asian market may lose its purchasing power due to appreciation in dollars, but its market demand is likely to recover with rebounding raw material prices. Especially, growth in Indian and Chinese markets will be driven by the state-planned infrastructure expansion and economic activation plan.

In 2017, the Construction Equipment Division has set its target on generating revenue of KRW 2.4 trillion and obtaining orders worth USD 1.86 billion. HHI will strengthen its global sales network by offering extensive dealer trainings and region-based comprehensive solutions. The division will improve product planning and expand strategic partnerships with global companies to secure greater consumer satisfaction and become a premium brand. In addition, Hyundai Construction Equipment, a new spin-off, will grow to become a competitive company with its professional business structure.

Green Energy



2016 Performance Review

The Green Energy Division made a substantial increase in sales with higher demands for solar products due to extended Investment Tax Credit(ITC) in the US. HHI focused on developing a customer base for small and mid-sized projects both domestically and internationally, generating revenue of KRW 325.3 billion in 2016. In order to be prepared for future demand for high-efficiency and high-output products, HHI expanded its manufacture of PERL models. By focusing on the model which is 5% more efficient in power generation than the regular ones, HHI placed a higher emphasis on high-efficiency solar cells within their product lines.

2017 Outlook and Plan

New solar module projects are expected to decrease in the markets of China, US and Japan, which account for

over the half of the market, in 2017, while the demand will slightly increase in the emerging markets including India, Taiwan and Brazil. China's plan to cut subsidies for the solar industry is likely to bring down new installations, and concerns about possible reduction of subsidy under the new Trump administration may make the US renewable energy industry shrinking. However, short-term effects are insignificant and the total amount of installation in 2017 will likely remain at the same level as the previous year.

After spinning off from HHI in December 2016, the Green Energy will obtain an advantageous position in the market by scaling up high-efficiency single crystal PERL-type products against growing competition in the market. In addition, the newly launched HHI Green Energy will create new markets by expanding higher-value product mix and diversifying marketing channels optimized for each product and region.

Oil Refining & Petrochemical

2016 Performance Review

In 2016, Hyundai Oilbank recorded Sales of KRW 11.67 trillion, 8.6% lower than the previous year. In the meanwhile, an improvement in refining margin increased the operating profit by 53% year-over-year, recording KRW 967.1 billion.

The low oil price during 2016 led to growing the demand for oil refining products with a 12% increase in operation and 11% increase in sales. In addition, the division strived to maximize the profit by reducing cost through diversification of import sources of crude oil; expanding the production of higher-value-added products based the highest upgrading ratio at 39.1%; and performing efficient inventory management.

2017 Outlook and Plan

OPEC and non-OPEC countries agreed to cut oil productions, but the oil price is expected to be capped

by the growing production of the US shale oil. Higher demands for petrochemical products along with lower investments in new and expanding works for refinery infrastructure will increase the margin while the increase in exports from Chinese refineries will damage the margin.

Hyundai Oilbank will continue to generate profits by launching new businesses, upgrading the process, diversifying oil importing channels and implementing strategic inventory management. Hyundai Oilbank will develop and took active marketing initiatives for the new product named '98 RON Gasoline' and took active marketing to target the high-end vehicle market in New Zealand. HHI will enhance the oil refining upgrading ratio to 42% by expanding the capacity of the first RFCC and the second HCR, while securing additional profits from building new solvent deasphalting(SDA) process.

Financial Services

2016 Performance Review

Financial services sector underwent difficulties in 2016 with the revenue of KRW 775.3 billion and the operating profit of KRW 24.3 billion. The performance was impacted by extraordinary loss from ship/diesel funds and bond revaluation loss from interest rate hike during the second half of 2016. However, we made profits from project financing(PF) for real estates and structured financing. Corporate finance was extended to venture investment by registering new technology businesses and restructured its operation by establishing Sales & Trading Headquarters and Product Strategy Department. The first female manager and younger branch managers were appointed to refresh the organization. HI Asset Management's assets under management(AUM) decreased by 10% year-over-year to KRW 11.3 trillion due to the repurchase of medium-risk and medium-return products and outflow of institutional funds.

2017 Outlook and Plan

A rebound in raw material prices and an increase in interest rates will shift bonds capital to the stock market and create a favorable condition. Nonetheless, burgeoning protectionism, shrinking monetary policy and political uncertainties in Europe will possibly strain the industry. Cross-sector competitions in forms of free mobile commissions, internet banks and post office's/mutual financing association's funds will continue to intensify.

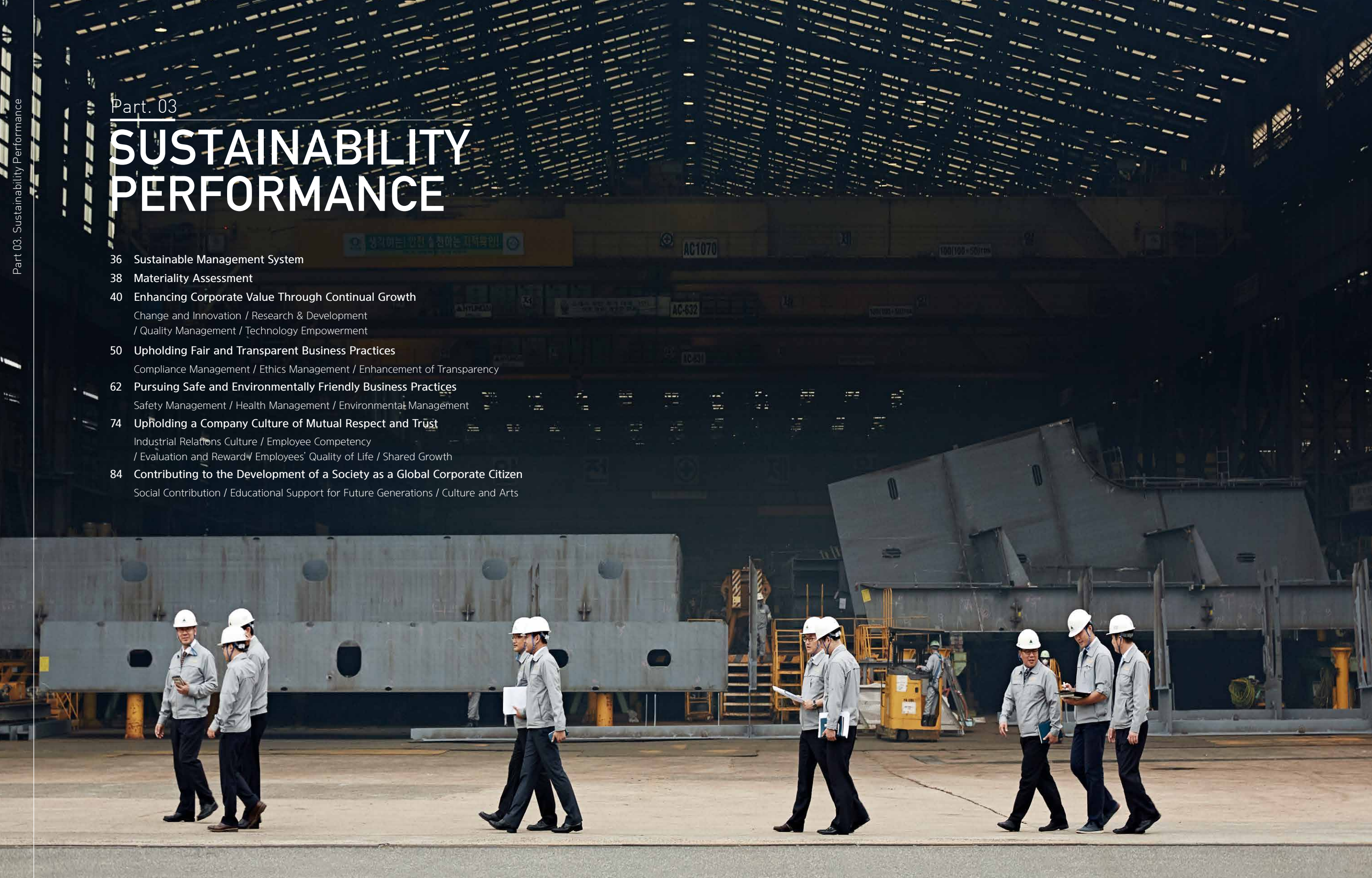
HI Investment & Securities will enhance retail business by hiring sales specialists, conducting strategic VIP marketing and improving after-services for funds, in which Product Strategy Department will play a crucial role for further growth. It will reinforce areas such as bonds purchases and real-estate financing, while expanding new businesses including aircrafts and SOC structured markets. HI Asset Management will diversify profit sources by improving fund operations with strong research, increasing AUM with aggressive marketing for bigger funds and expanding deal sources for special asset funds.



Part. 03

SUSTAINABILITY PERFORMANCE

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Sustainable Management System

Operating Principles and Process

HHI operates an efficient and sustainable management system by assigning professionals and departments for each sustainability initiative. Relevant departments perform comprehensive management for planning activities, execution, assessment and company-wide strategic planning. Collected information is utilized to plan and execute new sustainability initiatives and also used for integrated report.

Sustainable Management Policy



Transparent Disclosure

- Communication channels customized to different groups of stakeholders
- Transparent disclosure to stakeholders on sustainable management



Systematic Performance Management

- Activities and performance management by classifying areas based on the five management philosophies



Continuous Improvement

- Multidimensional analysis of sustainable management activities and performance
- Overcoming weaknesses and enhancing strengths

Stakeholder Communication

Customers, shareholders and investors, partners, communities, industries and employees are our key stakeholders that influence one another. HHI operates various communication channels for stakeholders' participation in sustainable management.

Stakeholder Communication



Customers

- Receiving feedback on products and services via regular communication
- Endeavouring to improve customer satisfaction

Key Communication Channels

Warranty & lifetime service, feedback service, smart service, FLiK magazine



Shareholders & Investors

- Enhancing transparency of management information
- Building a consensus on vision and new growth engines

Key Communication Channels

Shareholders' meeting, IR news, business reports, IR meetings, *New Horizons*, conference call



Partners

- Building a business environment for shared growth
- Providing training programs and consulting services for subcontractors

Key Communication Channels

Group Shared Development Committee, Shared Growth Expansion Council, conferences and a New Year's party for subcontractors



Communities

- Contributing to growth and development of local communities through various activities

Key Communication Channels

Charitable Bazaar with Love, Making Kimchi with Love, employees' volunteer activities



Industries

- Strengthening competitive edge through fair competition
- Benchmarking, sharing information and forming partnerships to resolve common issues

Key Communication Channels

Korea Offshore & Shipbuilding Association, meetings of practitioners from the same industries



Employees

- Inducing interest and participation in sustainable management through active internal communication
- Striving to build a cooperative labor-management relationship

Key Communication Channels

Collective bargaining, wage negotiations, Labor Management Council, Industrial Health & Safety Committee, HHI webzine & blog, HHI News

Materiality Assessment

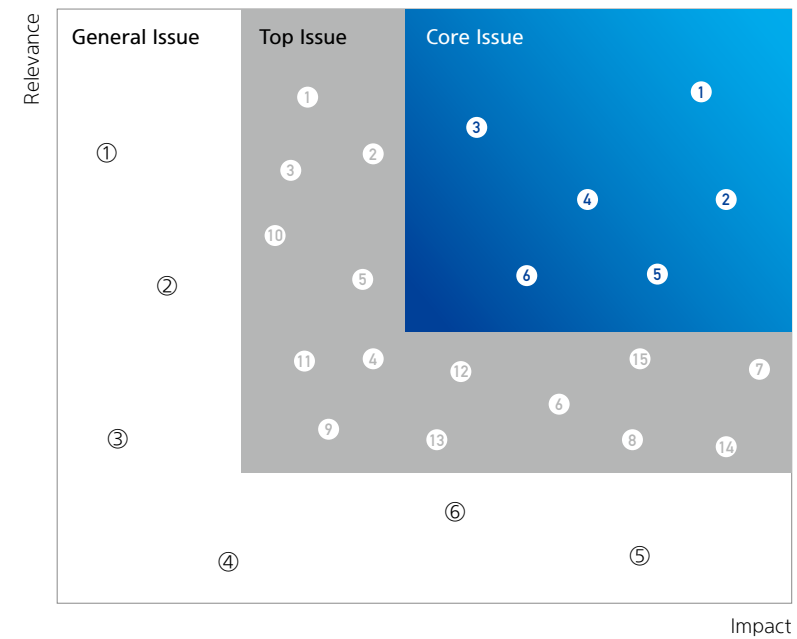
Materiality Assessment Process

To select core issues of its integrated report, HHI conduct materiality assessments regarding stakeholders' interests, improvements and business impact levels on corporate activities.

The assessment of 2017 identified a pool of 27 issues by media research, benchmarks and analyzing global reporting standards such as GRI G4, ISO 26000, UN Global Compact and UN Sustainable Development Goals. The identified issues are classified into "core", "top" and "general" issues according to importance and relevance. The *2017 HHI Integrated Report* discloses HHI's management approach and key performance of core issues. Key activities and achievements on other issues have been discussed if deemed necessary for continuity with past reports and for complete disclosure of information regarding value creation.

- 01 Identify Issue Pool**
 - Selecting information that affects value creation
- 02 Evaluate Stakeholders' Interest**
 - Media research
 - International standards analysis
 - Survey on stakeholder interest
- 03 Assess Business Impact**
 - Benchmarking the related industries
 - Employee survey on business impact
- 04 Verify Effectiveness**
 - Reporting and obtaining approval of the assessment results by the decision maker

Materiality Assessment Result



5 Key Management Philosophies

- 1 Enhancing corporate value through continual growth
- 2 Upholding fair and transparent business practices
- 3 Pursuing safe and environmentally friendly business practices
- 4 Upholding a company culture of mutual respect and trust
- 5 Contributing to the development of a society as a global corporate citizen

Core Issues

- 1 Quality management for customer satisfaction
- 2 Compliance management and business ethics
- 3 Creating safe workplace and enhancing safety awareness
- 4 Promoting employment stability and cooperative industrial relations culture
- 5 Creating value with changes and innovation
- 6 Developing new technology through R&D

Top Issues

- 1 Fair distribution of economic performance
- 2 Mutual growth with communities
- 3 Ensuring diversity and fair opportunities
- 4 Information security management
- 5 Enhancing employees' quality of life by improving welfare system
- 6 Ensuring integrity of governance
- 7 Developing new businesses and diversifying businesses
- 8 Customers' health and safety
- 9 Employee competency development
- 10 Pursuing shared growth with business partners
- 11 Social contributions
- 12 Operating an integrated risk management system
- 13 Stakeholder communication
- 14 Enhancing material and energy efficiency
- 15 Environmental management through developing environmentally friendly technology

General Issues

- 1 Respecting human and labor rights of employees at subcontractors
- 2 Strengthening fair trade system
- 3 GHG emissions management and climate change response
- 4 Reducing environmental impacts of business partners
- 5 Reducing waste and pollutant emissions
- 6 Establishing and operating resource circulation, reusing/recycling framework

Disclosure on Management Approach

Enhancing Corporate Value Through Continual Growth

Creating new growth engines through continued change and innovation is crucial to pursue sustainable growth in the fast-paced global business environment. HHI will enhance its competitiveness and shareholders' values by splitting the non-shipbuilding divisions into independent companies, and deliver customer satisfaction by prioritizing quality and technology top priorities.

Strategy and Achievements

HHI has been carrying out management improvement plan to regain the trust of the market and seek opportunities to recover. We strengthened the competitive edge and financial soundness by realigning businesses and selling off non-core assets. In addition, HHI is creating greater customer satisfaction with continuous development of technology and quality improvement.

Plans

HHI plans to intensify specialties of each business area and sharpen its core competitiveness. Reinforced by technology and quality-based competitiveness, we will uphold brand values of each independent entity and maximize customer satisfaction. HHI will also see expansion on R&D investment and establishment of training infrastructure to cultivate professional workforce in technology. Moreover, we will prevent quality failure and minimize loss by continuing our quality improvement initiatives.

Target Sales for 2021

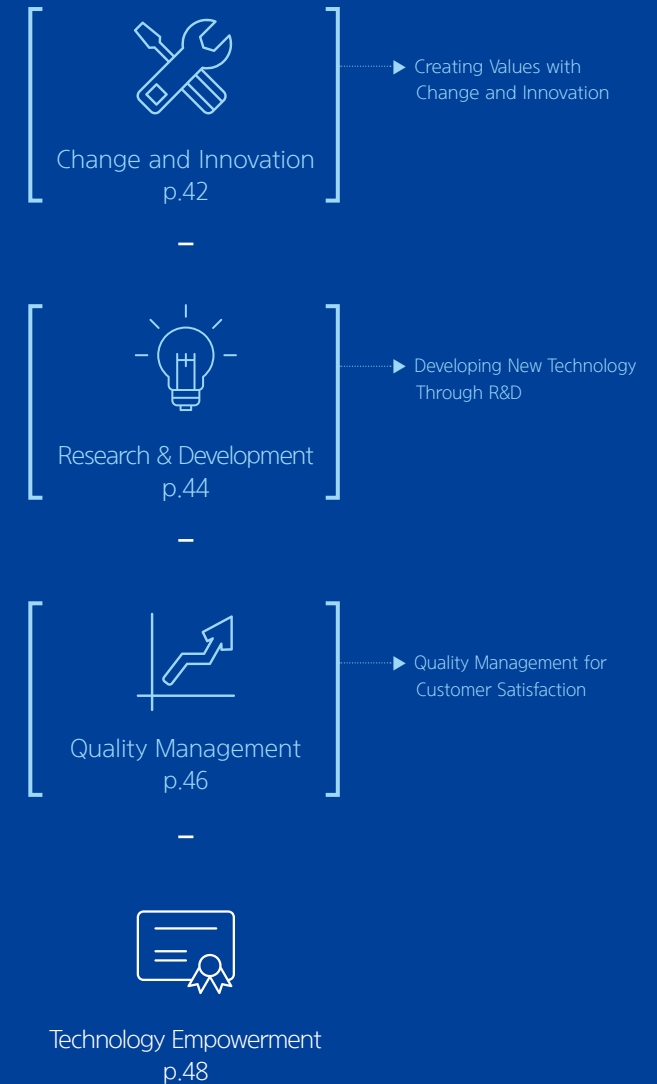
KRW 30.5 trillion

R&D Investments in 2016

KRW 193.9 billion

Reported Issues for Enhancing Corporate Value Through Continual Growth

● Core Issue ● Other Issue ▶ Relevant Materiality Assessment Item



Change and Innovation

Background and Direction

HHI is faced with numerous challenges caused by unstable market conditions such as persistent low oil price and decreasing new investments in the global economy. To tide over the crisis, HHI is taking an initiative to implement continuous change and innovation powered by flexible management system.

Performance and Achievement

1 Management Improvement Plan

Confronted with the sluggish industry and dwindling orders, we continued to rationalize our management in order to redeem the trust and enhance our competitive edge in the market. First of all, HHI disposed of non-core assets including stocks and real estates, while terminating mandatory extra working hours and encouraging the employees to use paid leaves as a part of job sharing. In addition, we aimed to strengthen our core competencies by restructuring through reorganization of the affiliates. Efforts were made to revamp the profitability such as fixed cost reduction, and HHI was able to return the business to profit despite challenging market conditions.

2 New Step Forward with Business Division

HHI was separated into six independent entities for a new start. Shipbuilding · Offshore & Industrial Plant · Engine & Machinery, Robotics, Electro Electric Systems and Construction Equipment divisions were separated in a form of equity spin-off, and smaller divisions—Green Energy and Marine Service Business divisions as a captive spin-off. After the spin-off, HHI lowered the debt-to-equity ratio to below 100% by transferring the existing debt of HHI to separate companies on a pro rata basis, and thus in turn enhancing our financial soundness.

With advanced technology in smart ships and eco-friendly engines, HHI will secure future engine for growth and continue to enhance its prestige as a global leader. Equipped with independent management system, each spin-off companies—Hyundai Robotics, Hyundai Electric and Energy Systems and Hyundai Construction Equipment will develop its own professionalism in its industry and secure its competitive edge in the global market.

Business Division Status





December 2016: Captive Spin-off(Two Entities)

HHI Green Energy(green and solar module business), Hyundai Global Service(integrated marine services)

April 2017: Equity Spin-off(Four Entities)

Four core business sectors—shipbuilding · offshore & industrial plant · engine & machinery, robotics, electro electric systems, construction equipment

Visions and Core Strategies of the Split-Off Entities

Company name	 HYUNDAI HEAVY INDUSTRIES	 HYUNDAI ROBOTICS	 HYUNDAI ELECTRIC	 HYUNDAI CONSTRUCTION EQUIPMENT
Business	Shipbuilding, offshore & industrial plant and engine & machinery	Industrial robot and automation systems	Electro electric equipment	Construction equipment, industrial vehicles and related components
Vision	Global leader—building a better future	Global top-tier comprehensive robot enterprise	Global top-tier player leading the power industry	2023 Global top 5
Slogan	Global leader for marine industry	Better life with hyundai robotics	Essential for today potential for tomorrow	Moving you further
Sales Target for 2021	KRW 20 trillion	KRW 500 billion	KRW 5 trillion	KRW 5 trillion
Core Strategy	<ul style="list-style-type: none"> Improve profitability with quality enhancement and cost reduction Differentiate with green and high-efficiency technologies Create growth drivers with innovative products for future needs Build ICT-convergence and technology-based management infrastructure 	<ul style="list-style-type: none"> Fortify competitiveness of flagship products Diversify markets and product lineup Create new business models Solidify its presence in the Chinese market 	<ul style="list-style-type: none"> Build up a global management system Increase sales of mass-produced products Create premium values of flagship products Expand ICT-based energy solution business Enhance R&D competency worldwide 	<ul style="list-style-type: none"> Enhance core competitiveness in cost and quality Bolster strategy for each core market Develop forward-looking R&D efforts and ICT-based technology



Research and Development(R&D)

R&D Goal

HHI is committed to creating new values for customers with differentiated technology. As a global top-tier company, HHI leads quality enhancement with technology development and tries to build a solid base for continual growth with cost competitiveness. HHI will make utmost efforts for R&D to maintain its leadership in the market and meet the customer expectations.

R&D Organization

Corporate Research Center	Developing company-wide general and core technologies and proprietary technologies to create new growth engines
Business Division Research Institutes	Developing new technologies and products, and focusing on flagship products to enhance competitiveness
Overseas Research Centers	Identifying global R&D trends and collaborating with overseas institutes

R&D Policy

Vision

**World Best Reliable
R&D Center in Heavy Industry
Sector**

(Technological innovation to overcome the crisis and ensure growth engines)

Slogan **R&D Commitment for Differentiated Products, Advanced Quality
And More Competitive Cost**

Strategic Direction

Upgrade core technologies and enhance order-winning competencies	Establish the foundation for sustainable growth with technology innovation	Build strategic cooperative network	Build creative and dynamic research culture
------------------------------------------------------------------	----------------------------------------------------------------------------	-------------------------------------	---------------------------------------------

Main Initiatives

- | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> Strengthen business-oriented R&D Enhance research on product demonstrations | <ul style="list-style-type: none"> Develop game-changing technologies Expand convergence technology development | <ul style="list-style-type: none"> Build cooperative system with affiliates Reinforce R&D network | <ul style="list-style-type: none"> Identify and foster top-tier talents Establish a research culture of creativity, challenge and autonomy |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Key Activities and Achievements in 2016

1 Development of LNG Carrier Gas Management System

In September 2016, HHI successfully completed the construction and delivery of the LNG carrier equipped with independently-developed gas management system. This system fully re-liquefies boil-off gas generated during the sailing, which maximizes both fuel efficiency and operating economy of LNG carriers. This development proves HHI's excellence in design and operational control in gas management system, and is expected to further contribute to winning competency to build more competitive LNG carriers.

2 Development of High Flame-Retardant Insulation

HHI succeeded in development and application of high flame-retardant insulation for LPG cargo tanks, which can substantially mitigate the risk of fire. Co-developed by HHI and international insulation producers, the product was modified in its chemical structure of polyurethane to enhance flame-retarding quality — a dramatic improvement to fire-susceptible cargo tank insulators previously used on LPG carriers. When the product catches fire, it is naturally extinguished within four minutes. Its heat insulation function is also up to par with the previous models, and we look forward to increasing demand for the new product.

3 New GIS Model Development

HHI developed a new GIS¹ model, a protection device for electrical equipment at power plants or substations. Compared to previous models, production cost of the new model has been cut down by 11.6%, and area required for installation reduced by 51% thanks to innovation in design structure. With its compact and lightweight design, the launch of the new model gave a much stronger competitive edge in international markets including the Middle East, Russia and Southeast Asia.

Note1. Gas Insulated Switchgear

R&D Investment

In 2016, HHI spent KRW 193.9 billion in R&D to develop new products and build competitive edge of flagship products. R&D cost per revenue has been consistent, although the amount has been fairly less than the last year. We plan to expand investment in R&D to provide best quality products to our customers.

Plan for 2017

HHI will differentiate its products by developing more advanced technologies and products to stay ahead of market needs. HHI's main R&D commitment highlights more competitive gas carriers and gas-fuelled ships; cost-effective engineering and production technology for offshore plants; and the introduction of smart factory system. HHI will build up customer reliability by preventing any risks of product quality and performance through stronger research on product demonstrations. HHI's R&D organizations are committed to placing more importance on the development of convergence technology and ICT-based innovative products.

Quality Management

Quality Management Policy

HHI has established a quality management(QM) system applied to all processes, based on the ISO 9001 standard. Through our quality improvement activities, we will minimize quality failure cost, establish the standardization of design and production, and set up a quality information sharing system.

Vision & Strategy

Mission Enhance HHI's Competitive Edge Through Quality Improvement Planning and Innovation

Vision

Best Innovator That Leads Best Quality

Slogan

Absolute Quality

Strategic Direction

Quality Planning	Quality Innovation	Company-Wide Improvement
<ul style="list-style-type: none"> Upgrade QM process based on ISO 9001 standard Minimize quality failure costs by revamping the QM system Strengthen QM by implementing quality audit guidelines 	<ul style="list-style-type: none"> Improve design and production by monitoring vulnerable processes Maintain reliable supply through efficient procurement, modularization and localization of materials and parts 	<ul style="list-style-type: none"> Establish quality teams for company-wide quality improvement activities and conduct team-level actions Improve current systems to encourage employees' participation

International Certification Status

HHI has been certified to and maintained the international standard for quality management system, ISO 9001. The QM system of HHI's entire production process, including planning, implementation, audit and improvement, are verified by third-party certification authorities.

Key Activities and Achievements in 2016

1 Renewal of Quality Management System

In order to renew the QM system, HHI conducted an internal inspection by examining the implementation rate of HHI's work standards and improved the problems identified. Focus areas will be selected and provided for further inspections to enhance the reliability and applicability of the system.

2 Re-Establishment of Quality Failure Cost Management System

We re-established the management system of quality failure costs by realigning processes and improving computer systems to make quality as the top priority of management. In addition, we encourage our employees to participate in quality improvements by introducing immediate reward policy for preventing quality failure.

3 Quality Audit

HHI conducts quality audits to boost the quality management level of subcontractors. In 2016, we conducted quality audits on 17 partner companies and intend to expand the scope to internal working processes.

4 Design Quality Improvement

A drawing checking program was implemented to reduce design time and minimize malfunctions. Additionally, a higher efficiency in human resource operations and occupational responsibility was achieved by re-establishing design evaluation indices and a management system that tracks changes in design and its causes.

5 Quality Team Activities

The top ranked quality team of HHI won the president's bronze award in the National Quality Team Competition held in September 2016. Also, in December, an in-house quality team competition was hosted in which eight teams participated to share best practices.

Plans for 2017

HHI plans to focus on preventing quality failures with bold investments, building a database of previous failure cases, and production traceability management. HHI will implement Team Responsibility Policy for quality failure costs in order to plant a strong sense of responsibility and employees' engagement. Moreover, the quality management system will continue to see improvement upon establishing a standard for chargeback procedure and expanding quality audits.

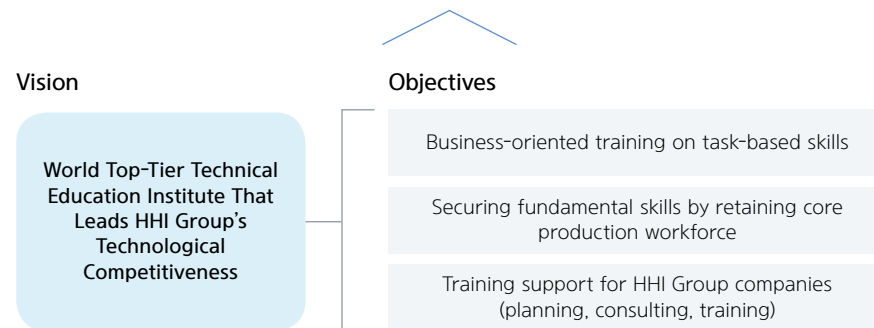
Technology Empowerment

Training High-Skilled Technicians

The main sources of our technological capacities come from the infrastructure dedicated to technical education and training. Since the establishment of Technical Education Institute in 1972, we have been nurturing technical professionals through systematic training and education programs.

Operating Policy of the Technical Education Institute

Roles “Strengthening Worker’s Competency with a Systematic Training Framework, And Contributing to the Advancement of the Company’s Technical Competitiveness”



1 Expanding In-House Qualifications System

To develop the technological competence and strengthen the production quality and technical competitiveness of workers, HHI increased the number of certification types applicable for the in-house qualifications system from 11 to 15. Furthermore, we expanded the system to employees who work for our subcontractors as part of HHI’s effort to pursue mutual growth with business partners.

2 Core Skill Transfer Program

HHI strives to prevent the loss of its technical competence by systematically maintaining and transferring the 127 core skills inherited from highly skilled technicians. In 2016, HHI evaluated the 35 skills passed on through the program and certified 21 of them, and also awarded HHI Technology Master Prizes to excellent performers.

Key Activities and Achievements in 2016

Plans for 2017

3 Employment Steppingstone Program

HHI’s technical training program has been in partnership with the Employment Steppingstone Program by the Ministry of Employment and Labor, turning out 629 specialized technicians. The Steppingstone Program, first implemented in 2016, provides job-seeking youths with opportunities for training or internship, and supports employment in relevant fields.

4 Job-Oriented Training Program

HHI offers an employment-based training program for students of meister schools in order to foster and attract skilled workforce. We help them to build technical capabilities with systematic trainings and inspire their sense of membership to HHI.

5 “Working and Learning Program” for Employees

In 2015, HHI has introduced the Working and Learning Program to help employees graduated from specialized/meister high schools to continue their studies during employment. Participants receive three months of training in welding, machinery and electricity, and nine months of on-the-job training. In 2016, 89 participants completed the program.

6 HHI Technical College

HHI operates Hyundai Heavy Industries Technical College since 2013, an in-house college granting bachelor degrees certified by the Ministry of Education. HHI is providing active support for students to successfully work and study at the same time. As a result, 57 students graduated in 2016.

7 Training for Production Workers

HHI conducted trainings for production workers with three-to-five-year career to upgrade their job-related skills and offer motivation for the productivity improvement. In 2016, a total of 20 training courses were open and 663 employees completed the training.

HHI plans to establish a systematic training system for fostering core talents in the work field and retaining its on-site skills. We will offer four-level mandatory training courses for the entire production workers, to present them with a new vision for career developments and to help them grow as specialized technicians. Moreover, HHI will develop customized training courses for each spin-off company to improve specialized technical capabilities for each industry. Finally, HHI will increase after-work training courses from 12 to 29 to build a culture of self-development.

Disclosure on Management Approach

Upholding Fair and Transparent Business Practices

HHI aims to be a transparent and reliable company. By upholding sound ethical practices and compliance, we will work to create a market environment that contributes to the growth of all our stakeholders and the sustainability of the society.

Strategy and Achievements

HHI has implemented its own compliance guidelines and training programs to prevent legal violation risks and to promote ethical awareness among the employees. We also run various communication channels to secure transparency in management and to offer more information to the stakeholders. In 2016, we conducted trainings and evaluations for employees regarding the Improper Solicitation and Graft Act (hereby "Anti-Graft Act") and introduced a new mobile webpage in business ethics to increase accessibility of the stakeholders.

Plans

HHI will conduct regular on-site inspections to respond to compliance risks due to changes in law and external environments. In addition, HHI will reflect new social aspects such as the Anti-Graft Act to help the employees educate themselves on the relevant laws for compliance.

Number of Participants in Anti-Graft Act Compliance Evaluation

9,552

Number of Attendees at 2016 Business Ethics Field Session

739

Reported Issues for Upholding Fair and Transparent Business Practices

● Core Issue ● Other Issue ▶ Relevant Materiality Assessment Item



Compliance Management

Operation System

HHI has implemented compliance guidelines in all businesses to enhance the compliance awareness and prevent legal violations. Since 2004, we have introduced the Fair Trade Compliance Program, which is responsible for maintaining the compliance management system and the planning of support activities such as diagnosis, inspection and training.

Key Tasks of Compliance Management by Area

Compliance Guidelines	Fair Trade Compliance Program
Compliance Risk Assessment and Management	Revision of fair trade compliance handbook
Planning and operation of compliance education	Inspection on fair trade compliance program
Inspection on anti-corruption Compliance Guidelines	Fair Trade Training for employees

Key Activities on Compliance Guidelines in 2016

1 Training and Evaluation on the Anti-Graft Act

In September 2016, HHI conducted a training for the entire staff on the Improper Solicitation and Graft Act prior to the enforcement. Over 2,000 employees working in Seoul and Ulsan participated in on-site training where external legal experts were invited for instructions. Training materials and booklets were also distributed to every relevant department. In addition, HHI elevated the understanding of the law through regularly issued compliance newsletters.

HHI internally evaluated employees' understanding of the Anti-Graft Act to raise awareness on this matter. 90%(9,552) of employees—the executives, entire office workers and team leaders of production workers—took the examination, and 82% of them achieved the qualifying score. After the evaluation, Compliance Team visited some departments with low scores to conduct customized training for the employees.

2 Compliance Training

HHI conducted training sessions on the compliance management and its supporting system for the executives and promoted employees. HHI also offered "Visiting Compliance Training" program where customized trainings were provided for departments in need of educations.

3 Compliance Newsletter

We regularly publish compliance newsletters on the intranet to introduce changes in relevant laws and heighten the compliance awareness of all employees. In 2016, we published 18 issues of compliance newsletters, containing the examples of the Anti-Graft Act application.

Key Fair Trade Compliance Activities in 2016

4 Legal / Anti-Corruption Approval and Review

HHI has an anti-corruption pre-approval system and conducts legal reviews to cultivate clean and fair management culture, and to prevent legal risks. In 2016, HHI reviewed 215 legal provisions related to fair trade, illegal dispatch and economic sanction, and inspected 45 cases of approval of economic benefits and stakeholder due diligence.

1 Fair Trade Training Sessions

HHI conducted training sessions on the Subcontracting Act and the Dispatched Worker's Act for the employees in charge of suppliers management, and Fair Trade Act for the purchasing departments. In addition, 150 employees in total took online training courses on the Fair Trade Act.

2 Inspection on Fair Trade Compliance Program

During the first half of 2016, HHI conducted documentary inspections on 53 departments where risk management should be addressed regarding inappropriate benefits. During the second half, HHI performed on-site inspections on departments where issues arised on unfair collaborative acts or unfair trades for the last five years.

Other Compliance Programs/Activities

1 Compliance with Economic Sanctions and Export Control Regulations

HHI respects the decisions of the international community to prohibit illegal acts and transactions that could have a detrimental effect on international affairs including military conflicts, terrorism, trade of dangerous chemical products and drugs and manufacturing of weapons of mass destruction. We strive to comply with domestic and international regulations established in regards to economic sanctions and export control, and operate an internal control system to prevent trades involving sanctioned counterparties and goods.

2 Establishment of Anti-Corruption Cooperation System

HHI supports international anti-corruption efforts by joining UN Global Compact and British Standard Institute to strengthen anti-corruption cooperation and build the network. Also, HHI added an standard anti-corruption provisions in every contract with its business partners to enhance anti-corruption cooperation.

Plans for 2017

1 Strengthening Anti-Corruption Cooperation System

HHI will strengthen its cooperation with stakeholders and relevant organizations on anti-corruption. We plan to sign the UN Global Compact's Anti-Corruption Call to Action and join Fair Player Club. Also, we will provide a stronger support to our affiliates for compliance management including sharing compliance-related materials. Additionally, HHI will develop an anti-corruption checklist for our business partners and conduct inspections based on it.

2 Expanding Compliance Training

HHI will open online courses on the Anti-Graft Act to provide employees with better accessibility to the relevant education. Also, on-site trainings will be simultaneously expanded to meet the relevant departments' demand for compliance training.

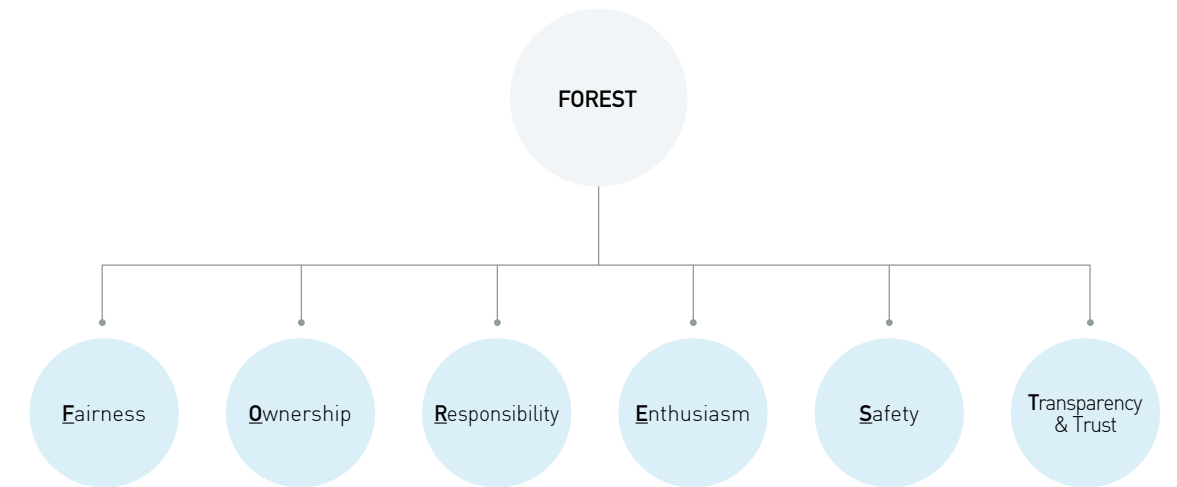
3 Strengthening Regular On-site Inspection

To identify compliance risks and respond immediately where risks arise, HHI will intensify its regular on-site inspections. We will conduct inspections on high-risk departments regarding the Anti-Graft Act and the revised subcontracting law, and provide trainings on the identified risks.

Business Ethics

Value Structure and Direction

Like a "FOREST" that contributes to the coexistence of all surrounding lives, we will foster an environment for all stakeholders' growth and development and pursue a sense of fairness, ownership, responsibility, enthusiasm, safety, transparency and trust. HHI will put its best effort into becoming a company that customers and partner companies want to do business with, a company that investors want to make an investment in, a company that employees want to work at, and a company that fulfills its responsibility for the nation and communities.



Customers	Community	Employees	Partners and Competitors	Government	Shareholders and Investors
 Customer Satisfaction • Product liability enhancement • Customer protection	 Corporate Citizen • Eco-friendly management • CSR • Community involvement	 Respect • Respect for employees' human rights • Improvement of work environment • Prohibition of discrimination	 Fairness • Establishment of sound business practices • Protection of technology and sales secrets • Prohibition of poaching employees from rival companies	 Compliance • Sound government relations • Cooperation and support for policy making • Tax payment in good faith	 Transparency • Enhancement of corporate values • Transparent disclosure of management information • Equal treatment

Business Ethics System

HHI's business operations are based on practical ethics standards including the Charter of Ethics, Code of Conduct and Business Ethics Guidelines. We run a systematic and practical ethics program with a well-prepared training, promotion and action programs. We are applying additional ethics regulations for six job functions—procurement, personnel, sales, finance · accounting, design and IT.

Charter of Ethics	Code of Conduct	Special Code of Conduct	Business Ethics Guidelines
Declaration of HHI's management philosophies based on business ethics	Specific ethical standards in the Charter of Ethics by sectors	Standards for employees engaged in business functions, which require specific standards and stricter ethical obligation	Detailed job guidelines for the implementation of business ethics in the workplace
Code of Conduct for Business Partners	Business Ethics Action Program	Training and Promotion	
Ethical standards for shared growth with partners through transparency and fairness in business	Specific institution and process to develop fair and transparent corporate culture	Efforts for active employee participation in ethics management and diffusion of ethical corporate culture	

Charter of Ethics

Since the adaptation of ethics regulations for procurement position in 1994, HHI has been active in practicing and expanding its ethics program, online ethics violation reporting platform and training courses. In October 2005, HHI also declared its "Charter of Ethics" which proclaims its ethical management philosophy.

HHI's Charter of Ethics

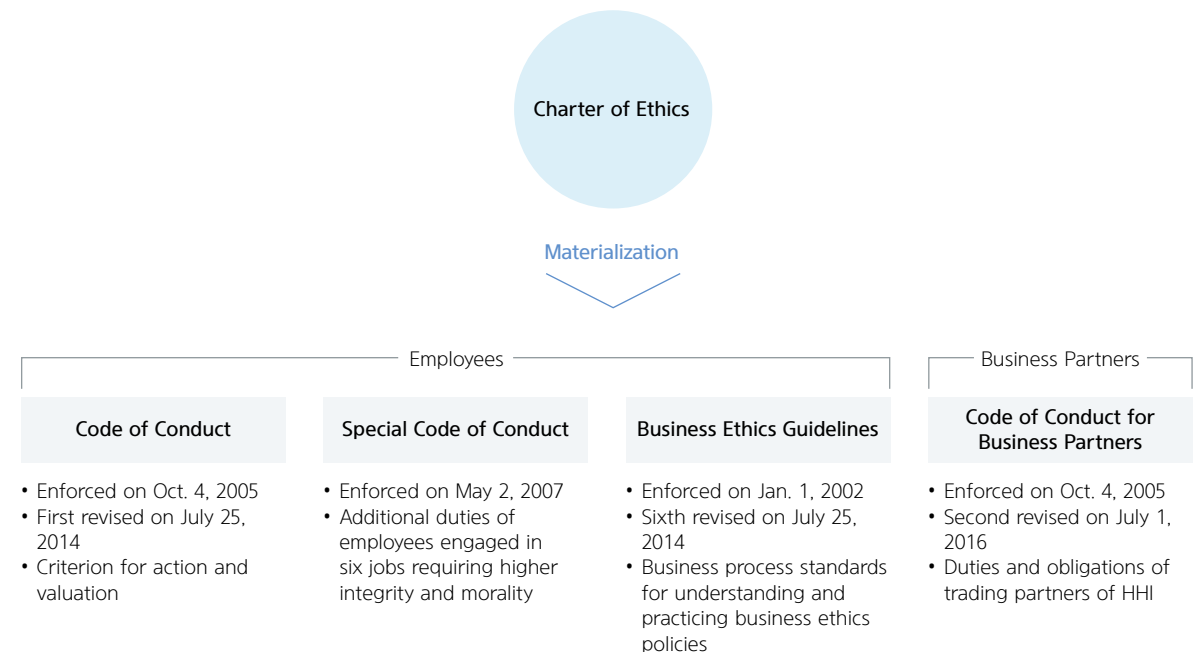
We pursue to be a respected and trusted company that positively contributes to its customers, shareholders and society with the Hyundai Spirit.

To achieve this goal, we hereby establish this Charter of Ethics, which defines our standards of conduct to follow in faithfully accomplishing our original role and social responsibilities as a corporate entity and we declare that we shall comply with this Charter of Ethics.

1. We shall be an ethical company that abides by all domestic and international laws and regulations through fair and transparent management practices.
2. We shall achieve customer satisfaction by meeting their needs and expectations.
3. We shall pursue to maximize shareholder's value through fair and efficient management.
4. We shall work to fulfill our social responsibilities and duties as a member of our community, and contribute to the development of our nation and society.
5. We shall work to create a transparent and clean corporate culture through fair competition and trading practices.
6. We shall pursue to be a company with the highest quality human resources that offer equal opportunities to our employees in a safe and comfortable working environment.

Materializing Business Ethics

HHI gives shapes to "Charter of Ethics" by each job, and enacts as well as revises "Code of Conduct," the benchmark for business and "Business Ethics Guidelines." In addition, we enhance our effectiveness by regularly making revisions that reflect social demands on ethical management and amending ethics regulations in tandem with the statutory laws and regulations including the Prevention of Corruption Act.



Key Business Ethics Action Programs

1 Commitment to Business Ethics Management

HHI employees and its partners are required to annually submit a pledge of commitment to business ethics, which is a commitment to understanding the relevant regulations and abiding by corporate policies and guidelines. The pledge requires compliance with ethics regulations and the anti-corruption law to avoid unfair trades, corruption, illegal solicitation and graft as prohibited by relevant regulations.

2 Conflicts of Interest Reporting

When a possible conflict of interest is identified, the employee in question is obligated to report the issue in advance to prevent any unfair practices. The process is advised to executives and employees engaged in the six key positions in procurement, personnel, sales, finance · accounting, design and IT, as well as employees of partners on an annual basis.

3 Clean Notice System

When employees receive gifts unavoidably from stakeholders, this system helps them return the gift to its source or donate to the charities only with a simple process.

4 Clean National Holiday Campaign

Prior to major national holidays such as the Lunar New Year and *Chuseok*, we send off letters to our partners not to provide any gift to our employees. We advise our partners to report any bribery demands or attempts to the Business Ethics Team.

5 Ethical Violation Reporting and Whistleblower Protection System

HHI runs an ethical violation reporting and reward system to eradicate unethical behaviors and promote an ethical corporate culture. We aim to keep the whistleblowers' identity strictly confidential and protect them from any disadvantages.

6 Ethics Management Self-Evaluation

HHI's employees find improvements and enhance the understanding of business ethics through self-monitoring and evaluation.

7 On-Site Hearings of Business Ethics

HHI conducts field sessions to hear opinions from employees and partner companies to diagnose and improve the level of ethics compliance. HHI also ensures whether those opinions are reflected to the work process.

8 Training and Promotion of Business Ethics

HHI runs group training courses and online courses on business ethics. To enhance employees' understanding and motivation, the materials are presented in viewer-friendly formats such as animated movies and cartoons

Key Achievements in 2016

Number of Employees at 2016 Business Ethics Field Session

Employees	501
Employees of partner companies	238
Total	739

Participants of the Business Ethics Training Course in 2016

Employees	2,815
Employees of partner companies	192
Total	3,007

Plans for 2017

1 Application of Anti-Corruption Law Compliance Guidance to the Code of Conduct for Business Partners

HHI has applied the compliance guidance of anti-corruption law to the Code of Conduct for Business Partners since July 2016 to enhance the ethical awareness of the employees of partner companies.

2 Introduction of Business Ethics Mobile Website

As a response to mobile-based internet environment such as smartphones and tablet PCs, HHI introduced a mobile website to provide stakeholders with greater accessibility to HHI's ethical management activities.

3 On-Site Hearings of Business Ethics

HHI collected suggestions and opinions on business ethics directly from employees through field sessions. We also visited the major partners to introduce our ethical management system and heard their opinions. HHI conducted field sessions at its head office and overseas construction sites, and took improvement measures.

4 Commitment to Business Ethics Management and Conflicts of Interest Report

HHI required the executives, office workers, team leaders of production workers and employees of partner companies to submit the Business Ethics Compliance Pledge to show their commitment to our business ethics. In addition, HHI obligated the executives, employees in special functions and employees of partner companies to submit the Conflict of Interest Report. To reflect revisions of regulations such as the Anti-Graft Act enacted in September 2016, we have updated the forms of Business Ethics Compliance Pledge and Conflict of Interest Report.

5 Business Ethics Training

We conducted business ethics training sessions for the newly hired, promoted employees and employees relocated overseas with a stronger focus on case studies for each work site. Moreover, HHI took steps to spread the culture of HHI's Business ethics among business partners by introducing HHI ethics management system through the Integrated Council of HHI Subcontractors, and by providing on-site business ethics training sessions to our major partner companies.

To enhance the ethical awareness of the employees, HHI plans to expand the range of employees who are required to submit the Conflict of Interest Report to the entire office workers and team leaders of production workers. HHI will also revise business ethics regulations, establish operation policies of business ethics for the spin-offs, and provide business ethics program for business partners

Enhancement of Transparency

Management Information Disclosure

HHI has established a systematic reporting process on the business activities and achievements for our stakeholders to improve business transparency and accountability.

Newsletter and New Horizons



Link to the Relevant Websites

HHI Website	www.hyundaiheavy.com
Business Ethics Website	ethics.hhi.co.kr
HHI Blog	blog.hhi.co.kr
<i>New Horizons</i>	nh.hyundaiheavy.com

Status of Management Information Disclosure

Program	Details
HHI Website	HHI's website provides information on our overall management activities, as well as the company's history, business principles, philosophy, business model and community support activities. The website also has links to investor relations, business ethics and affiliates' websites for convenience.
Investor Relations Website	HHI's dedicated investor relations website details our financial performance. The website makes timely disclosures on HHI's governance structure, financial information, stock information, IR newsletter and other relevant information for our shareholders and investors.
Investor Presentations	We regularly hold investor conference calls for analysts and institutional investors. HHI strives to provide timely and accurate information on our performance and outlook, and enhance investors' trust and confidence in HHI.
Business Ethics Website	HHI operates a business ethics website to strengthen our relationships with stakeholders and to practice fair and transparent management. The website introduces HHI's direction, structure and practice of business ethics and receives reports on unethical business activities.
Integrated Report	The <i>Integrated Report</i> contains the results and efforts made by HHI to create a sustainable company. From 2015, the annual report and the sustainability report were combined into an integrated report to provide a more balanced perspective of HHI's business activities.
Newsletter and Blog	Our monthly newsletters and blog disclose the management activities of three shipbuilding affiliates of HHI, as well as community news. Our newsletter and blog serve as a communication channel between the community and HHI.
<i>New Horizons</i>	Our quarterly English publication, <i>New Horizons</i> , reports our business activities, investment information and interviews with management for better communication with foreign clients, classification agencies and foreign investment institutions.

Disclosure on Management Approach

Pursuing Safe and Environmentally Friendly Business Practices

HHI implements measures to reduce the risk of accidents at worksites and to enhance the health and welfare of our employees. We also strive to minimize any environmental impact arising from our business activities.

Strategy and Achievements

HHI business and activities feature a number of processes that may be dangerous and harmful to our employees. We continue to identify and improve high-risk worksites and processes to prevent any errors that can lead to fatal accidents, and at the same time we do everything possible to prevent any interruptions to our business processes. From an environmental perspective, HHI is implementing an environmental management system that complies with international standards, with the goal of "Becoming Leading Company in Low-Carbon and Green Growth." In 2016, HHI improved its safety management organization, established Safety Golden Rules, and created a psychotherapy program for employees who suffered industrial accidents to help build a safer work environment. Additionally, HHI continues its efforts in reducing greenhouse gas emissions to lessen its impact on the environment.

Plans

The new goal of HHI in safety management is to achieve 'Zero Fatalities' with an accident rate of 0.24(for Hyundai Heavy Industries only) in 2017. HHI plans to improve on-site safety inspection by strengthening safety responsibility and building safety education infrastructure for manufacturing departments.

From an environmental perspective, HHI's main operational agenda is to keep pursuing low-carbon and eco-friendly management system, focusing on response to environmental regulations and establishing institutional framework for them.

Implementing Safety Culture

Safety Golden Rules and Immediate Rewards

New Psychotherapy Program

Supporting Psychological Recovery from Accidents

Environment Investment in 2016

KRW 18.4 billion

Reported Issues for Pursuing Safe and Environmentally Friendly Business Practices

● Core Issue ● Other Issue ▶ Relevant Materiality Assessment Item



Safety Management

Direction

HHI operates safety management in compliance with global safety standards such as Occupational Health and Safety Assessment Series(OHSAS 18001), and has implemented safety regulations including work standards and Safety Golden Rules which require strict compliance by the employees. In particular, we classify our worksites three tiers of safety risk system to beef up worker's safety.

Number of Department by Safety Hazard Level(High Risk > Low Risk) (As of December 2016)

Level 1 Including hull construction, outfitting, painting, etc.	32
Level 2 Including steel cutting, test operation, etc.	47
Level 3 Including quality management, outfitting production, etc.	32

Safety Management System

Safety Management Office has the full authority and responsibility for safety in HHI. In 2016, HHI promoted Safety Management Department to Safety Management Office and appointed CEO as the head of office. Also, safety teams of each business division are operated under direct control of COO of each business division, improving the quality of on-site management by separately designating a safety manager for each production division. In addition, Occupational Safety and Health Committee was founded, consisting of up to 10 members from the management and the labor union respectively based on collective agreements. The purpose of the Committee is to discuss overall safety issues, and guarantee attendance of labor union representative in work environment assessment and safety accident investigations.

Key Activities and Achievements in 2016

Immediate Rewards

Unit: case / mil. KRW

32,301
161.5

Safety Academy Participants

591

1 Enhancing On-Site Inspections

CEO, executives and heads of production sectors conducted frequent on-site safety inspections. Executives and heads of non-production sectors participated in on-site inspections twice a month to provide suggestions and feedback on safety improvements for each sector.

2 Immediate Reward System for Best Safety Practices

On-site safety personnel are provided with the authority to give immediate rewards, which are offered to workers with excellent safety performance on-the-spot recognition. By motivating employees to carry out voluntary safety measures, HHI is aiming to build a culture of encouragement and inspire the safety awareness of employees of HHI and internal partner companies.

3 Establishing Safety Golden Rules and Founding Safety Academy

HHI established Safety Golden Rules that everyone entering HHI should abide by with








Accident Rate(Including Business Partners)

Unit: %

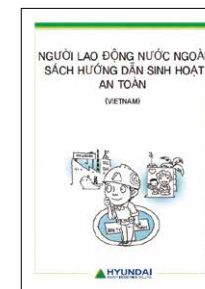
2014	0.32
2015	0.47
2016	0.38

no exceptions, in order to nurture a safety culture that observe the fundamentals and principles. Safety Golden Rules are composed of safety awareness, strict disciplines and the list of on-site risk management requirements. As a handbook of HHI's core value of safety, zero tolerance principle will be applied in case of violation. Sanctions are imposed on workers violating the rules. For example, any violators should complete two-day programs in the Safety Academy to prevent reoccurrence.

Safety Golden Rules for General Work Duties

 No smartphone and earphone (on move/work)	 No smoking (on move/work)	 No faster than 30km/h (forklift: 8km/h)	 Fasten seatbelt when working in high places
 No entrance under hoisting unit	 No arbitrary removal of safety equipment on machinery and apparatus	 Observe lock/sign device standards during electrical works	

Safety Training Material for Foreign Employees



4 Enhancing of Safety Training

Different training courses by position, job duty and equipment were opened and implemented. HHI provided customized safety trainings by producing and distributing five types of safety training materials for workers with different nationalities and educating specialized instructors for relevant trainings. Trainees are evaluated on their understanding of the material to boost the effectiveness of trainings.

5 Establishing Integrated HSE Management System

In June 2016, HHI completed the first stage development of Hyundai Integrated Health, Safety and Environment System(HiSEs). HiSEs is a computerized system that integrates tasks related to company-wide safety, health and environment. HiSEs allows employees to easily access training materials, current status of risky tasks and accident reports. The system reports safety-related issues via web and mobile platforms. HHI plans to proceed with the 2nd stage development of the system in 2017 for revision and improvement

Disaster and
Emergency Responses

6 Advisory Committee for Safety Innovation

HHI formed an advisory committee for safety innovation composed of external experts, including professors and officials from leading companies in safety management. Having appointed the committee members in December 2016, HHI will host a quarterly meeting to innovate safety awareness receive assessment and suggestions for innovation plans, and reflect them on HHI's safety policy.

1 Disaster Prevention System

HHI operates a company-wide disaster prevention system to protect employees and assets from natural disasters. Divisional emergency response teams are organized under the Corporate Disaster Head Office. In case of an incident, the teams take appropriate actions according to the level of the crisis(forecast, warning, alert and clearance). In case of fires in our worksites or disasters on the sea, HHI's special rescue team composed of life saving and emergency response experts are deployed. In September 2016, a separate manual for detailed response was prepared to enable quick evacuation, systematic rescue, first aid measures and recovery.

2 Establishing Integrated Safety Control Center

HHI plans to establish a company-wide integrated control center to provide real-time updates on quick responses to disaster or emergency. The integrated control center with up-to-date ICT has been under test at the Offshore & Industrial Plant Division since October 2016, and operates across the entire company from February 2017.

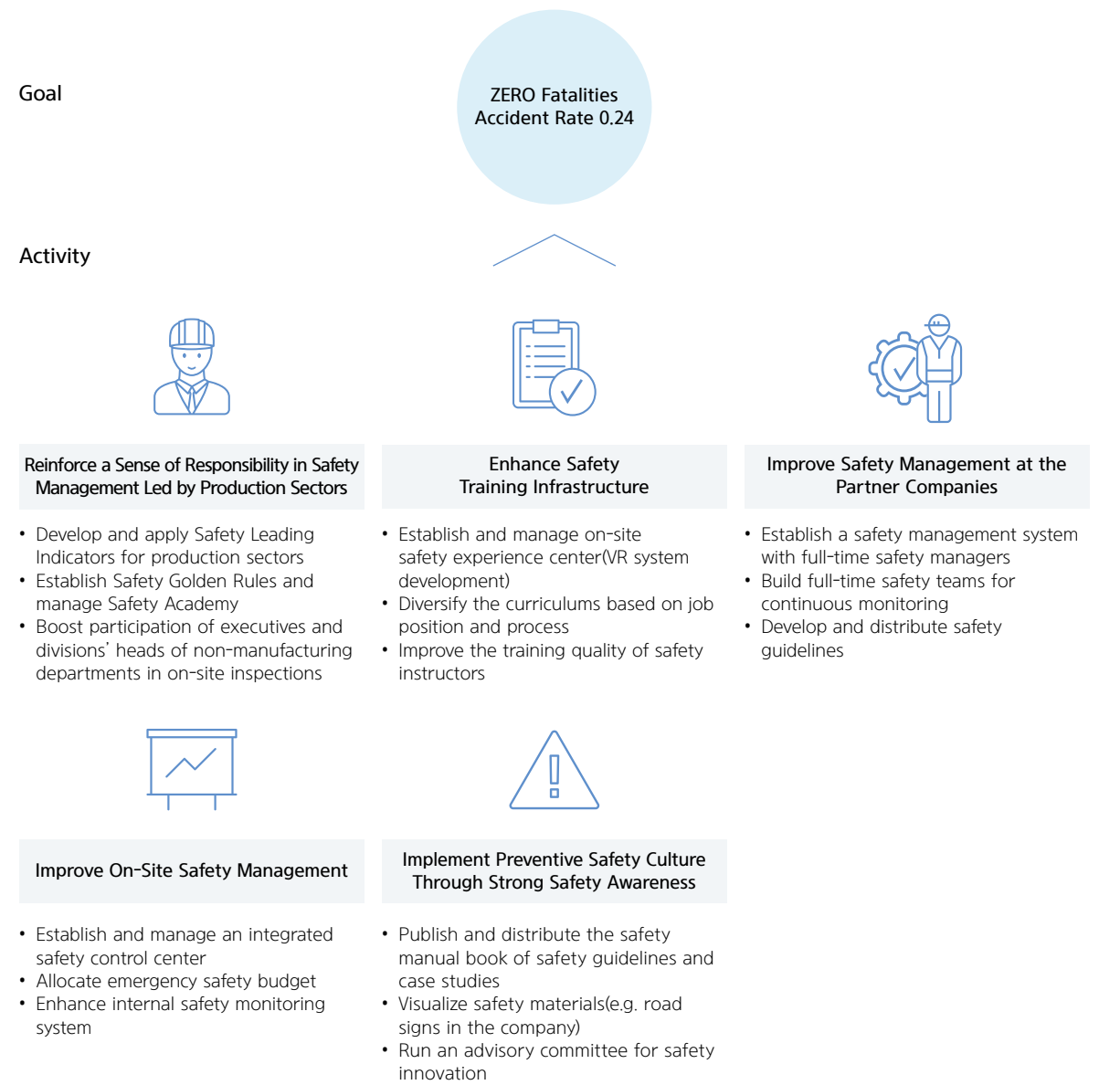
3 Strengthening Emergency Response Drills

HHI creates scenarios for explosions, fires and other accidents and hold emergency response drills for each department. To swiftly and effectively respond to emergencies, we hold regular site inspections to check emergency response measures. In 2016, HHI held multiple emergency drills such as process safety management, divisional fire drills and internal fire drills to further enhance our preparedness for emergencies.

Plans for 2017

HHI's goal for 2017 is to achieve zero fatalities with an accident rate of 0.24(for Hyundai Heavy Industries only). We will push forward to meet the goal with five main initiatives. For the production sectors, HHI will identify risk factors for each division for special management, and improve on-site safety inspections led by the division head to prevent fatal accidents in advance. For safety-related teams such as Safety Management Office and safety units under each business division, HHI will identify high-risk works and locations for focused management and monitor safety activities in the production sectors.

Safety Management Principles



Health Management

Direction

HHI provides regular medical checkups and financial support, and offers in-house medical service such as Health Promotion Center, Traditional Oriental Medicine Clinic and Psychotherapy Center. In addition, we provide special medical examinations for employees with new job duties.

Key Support Systems and Facilities

Health Care Support	HHI provides regular and special medical checkups for employees who are routinely exposed to dust, noise, harmful rays, metals or organic compounds. HHI also offers comprehensive medical testing to long-serving employees and runs customized disease prevention programs for each job type.
Financial Support	HHI provides financial support for cardiac surgeries, and treatment of cancers and other hard-to-treat diseases for employees and their families. Employees with occupational illnesses are offered health care costs and sick leaves.
Health Promotion Center	HHI runs health promotion centers at worksites to improve employee health and help the injured recover quickly. HHI also provides immediate treatment and high-quality medical care with consultation rooms, health promotion center, physical therapy rooms, rehabilitation rooms and local medical offices.
Traditional Oriental Medicine Clinic	In September 2015, HHI opened a Traditional Oriental Medicine Clinic with two doctors, four nurses and 20 beds, to treat musculoskeletal pains(e.g. backache, shoulder discomfort) with acupuncture, moxibustion and cupping.
Psychotherapy Center	HHI runs a counseling center that offers specialized services including psychological examination, group consultation and group psychological training to help promote the employee's psychological well-being.

New Visitors of Traditional Oriental Medicine Clinic(cumulative)

3,590

Key Activities and Achievements in 2016

1 Disease Prevention Program

HHI operates disease prevention programs to prevent noise-induced hearing loss and musculoskeletal diseases that may occur to employees engaged in certain functions. Also, HHI offers consultations on exercise, diet and health care for employees who have been diagnosed with high cardiovascular risks such as high blood pressure, hyperlipidemia or diabetes. In 2016, HHI conducted two sessions on hearing protection and respiratory system protection, and a one-time session on musculoskeletal disease prevention and the cardiovascular disease prevention.

2 New Psychotherapy Program

HHI created a new program that supports psychotherapy for employees who suffered industrial accidents. HHI also offers customized consulting programs for each employee to prevent further safety accidents caused by anxieties.

Participants in 2016 Quit Smoking Program

Total Number of Participants	479
Number of Succeeded Participants	320

Plans for 2017

3 Quit Smoking Program

HHI runs various programs to encourage employees to quit smoking. HHI offers trainings, expert counseling and the supplements to quit smoking, and created a quit-smoking fund to reward employees who stopped smoking. In 2016, 479 employees participated in the program, and 320 successfully quit smoking.

HHI will focus on preventive health management to build healthy workplaces. HHI will improve exhaust and ventilation systems in addition to employee health management programs. HHI will stay committed to helping our employees maintain their well-being with various programs related to workplaces.



Environmental Management

Direction

HHI practices Environmental Management(EM) to minimize the impact of its business on the environment, and sets goals of "Becoming Leading Company in Low-Carbon and Green Growth." HHI obtained certificates from the International Organization for Standardization including the ISO 14001 and ISO 50001, and its EM system's effectiveness is verified through the EM system inspection.

HHI strives to reduce fossil fuel usage from the engineering stage of shipbuilding and continues to develop eco-friendly technology: developing vessels for better fuel efficiency and eco-friendly marine propulsion systems and engines.

Response to Climate Change

1 Reducing Energy Consumption

HHI seeks to save energy by making consistent investments in infrastructure and energy reduction activities. In 2016, HHI replaced lightings in Ulsan offices with energy-efficient LED lights, and plans to gradually replace old lightings at worksites as well.

Energy Usage			
	Unit: TJ		
	2014	2015	2016
Direct Energy	7,302	5,003	5,243
Indirect Energy	11,664	11,715	10,937
Total Usage	18,966	16,718	16,180

2 Reducing Greenhouse Gas Emissions

HHI leads the emission trading scheme launched in 2015 by continuously reducing GHG emissions. HHI carries out various GHG reduction activities such as replacing bunker-C oil and kerosene with LNG for heating furnaces and boilers.

Unit: tCO ₂ e ¹			
	2014	2015	2016
Scope 1 ²	509,569	385,210	366,041
Scope 2 ³	566,875	574,065	531,184
Total	1,076,444	959,275	897,225

Note1. Ton of CO₂ equivalents, GHG converted into carbon dioxide unit
 Note2. Oil, gas usage, etc.
 Note3. Electricity usage, etc.

GHG emissions reduced through Green Factory activities

Unit: tCO₂e

54,171

Emissions Management

3 Green Factory

HHI actively participates in the green factory movement to reduce the GHG emissions by using electricity produced with renewable energy rather than fossil fuel-based sources.

	Worksites	Operating System
Wind Power	Head Office	• 1.65 MW Wind Turbine
	Gunsan Wind Power Plant	• 2 MW Wind Turbine
Solar Power	Head Office	• 65 kW Solar Cell
	Eumseong Plant	• 1,246 kW Solar Cell & Solar Power Site
	Seonam Plant	• 598 kW Solar Cell
	Gunsan Wind Power Plant	• 811 kW Solar Cell

1 Air Emissions Management

The major air pollutants from HHI worksites are dust and volatile organic compounds(VOCs⁴) emitted during manufacturing(pre-treatment) and painting processes. HHI practices multifaceted efforts in reducing air pollution such as setting internal environmental standards that are 50% stricter than the legal requirement and installing prevention facilities. Following the second Shipbuilding Industry VOCs Reductions Agreement which we signed in 2012, HHI has made various efforts to reduce emissions and reduced by 21.4%, well beyond the goal of 15%⁵.

Air Pollutant Emission Compounds			
	Unit: ton		
	2014	2015	2016
Dust	68.92	73.91	87.24
VOCs	7,946	7,851	7,018
SOx	1.31	1.21	1.27
NOx	20.42	22.71	40.37

* As a revision of domestic Clean Air Conservation Act, the emission compounds increased by changing in estimated standard such as expansion of air emission facilities.

Note4. Volatile Organic Compounds

Note5. Based on average emission compounds of 8,927 ton from 2007 to 2011

2 Waste Management

Waste generated in the production processes is categorized into general and designated waste, and recycled or incinerated at our facilities by external specialists. We operate a waste treatment system and monitor the processes on a real-time basis to ensure a systematic and legally compliant treatment of waste.

Amount of Wastes(measured from Ulsan Head Office and Offshore Factories) Unit: ton			
	2014	2015	2016
General Waste	113,242	113,552	103,261
Designated Waste	11,181	10,736	9,960

3 Wastewater Management

Wastewater generated in our worksites is treated by our own wastewater treatment facility or by external specialists. Each division conducts source-based management to reduce the amount of wastewater discharge. HHI's wastewater treatment facility uses a physicochemical process that has 50% stricter standards than the legal requirement.

Amount of Wastewater Discharge Unit: ton			
	2014	2015	2016
Wastewater	448,945	423,669	335,113

Water Pollutant Emissions(measured from Ulsan Head Office and Offshore Factories) Unit: ton			
	2014	2015	2016
Biochemical Oxygen Demand	0.47	0.19	0.17
Chemical Oxygen Demand	0.50	0.25	0.27
Suspended Solids	0.021	0.024	0.012

* Errors were found on water pollutant emissions in 2014 and 2015 in the 2016 Integrated Report. The figures have been modified.

4 Chemical Substances Control

For the health of employees, partners, customers and community members, HHI strictly manages the entire process of chemical substances usage from warehousing to disposal. Inspections and trainings are regularly conducted, and worksites are required to have Material Safety Data Sheets on-site.

1 Environmental Investment

HHI continues to make investments in environmental management in order to reduce our businesses' environmental impact. We classify the investment into pollution prevention, environment load reduction, environment risk management and social costs for effective management. In 2016, a total of KRW 18.4 billion was spent on environmental investment.

2 Green Purchasing

HHI signed a voluntary agreement on Green Purchasing Principles with Ministry of Environment in 2006 for eco-friendly supply chains. In 2016, a total of KRW 129.5 billion was spent on green purchasing.

Plans for 2017

HHI established an environmental management principle, "Conducting Low-Carbon Eco-Friendly Management System" for 2017. We will focus on complying with environmental laws and regulations; establishing an institutional framework for green management; conducting preventive activities for environmental pollution; and promoting environmentally friendly activities for "Becoming Leading Company in Low-Carbon and Green Growth."

Environmental Management Policy

Goal

Becoming Leading Company in Low-Carbon and Green Growth

Operation Policy

Driving Sustainability as an Eco-Friendly Company

Main Initiatives

Regulatory Compliance

Chemical Substance Regulations

- Establish response measures for chemical regulations
- Enhance operational capabilities
- Strengthen chemical treatment facilities management

GHG Regulations

- Establish response system for GHG regulations
- Enhance operational capability
- Procure means of GHG reduction

Institutional Framework for Green Management

EMS

- Conduct educational programs for EMS¹ managers
 - Create and maintain EMS standards
- Note1. Environmental Management System

Environmental Information Management and Reporting

- Build and manage environmental information system
- Support the publishing of integrated reports

Pollution Prevention Activities

Establish Inspection System

- Rearrange emergency contact network
- Conduct quarterly detailed inspection for entire production process

Pollution Prevention Training

- Organize group training sessions for EMS operators and managers and sessions on marine pollution prevention

Environment Protection Activities

Clean-Up Activities in Local Community

- Regularly participate in local community's clean-up activities
- Support local environmental preservation events

Voluntary Agreement

- Voluntarily comply with the green purchasing system
- Promote the green purchasing system

Disclosure on Management Approach

Upholding a Company Culture of Mutual Respect and Trust

HHI is trying to build a corporate culture that upholds co-existence through constant communication. We pursue an aim to create shared value by establishing trust in the industrial relations and seeking mutual growth with our business partners.

Strategy and Achievement

Opinions from the employees and the business partners are reflected on our management activities. HHI continues to communicate with the labor union to offer reasonable compensations to the employees, while providing opportunities to build competency with different training programs. HHI's welfare policy is based on the fundamental principle providing supports to areas related to practical needs, which helps our employees achieve work-life balance. In addition, HHI recognizes mutual growth with the partners as a crucial component of sustainable management and offers different support programs across financial, technological and human resources.

Plans

HHI plans to build a healthy labor-union relation by collecting opinions via various communication channels and engaging in active dialogues. In addition, HHI will foster talented individuals who will lead the future of the company by building an educational foundation that develops employee competency, providing job and leadership trainings. HHI plans to support our business partners with activities that proved to be effective to help them build competency.

Percentage of Employees in Labor Union

98.9 %

Cumulative Number of Participants in Training Courses in 2016

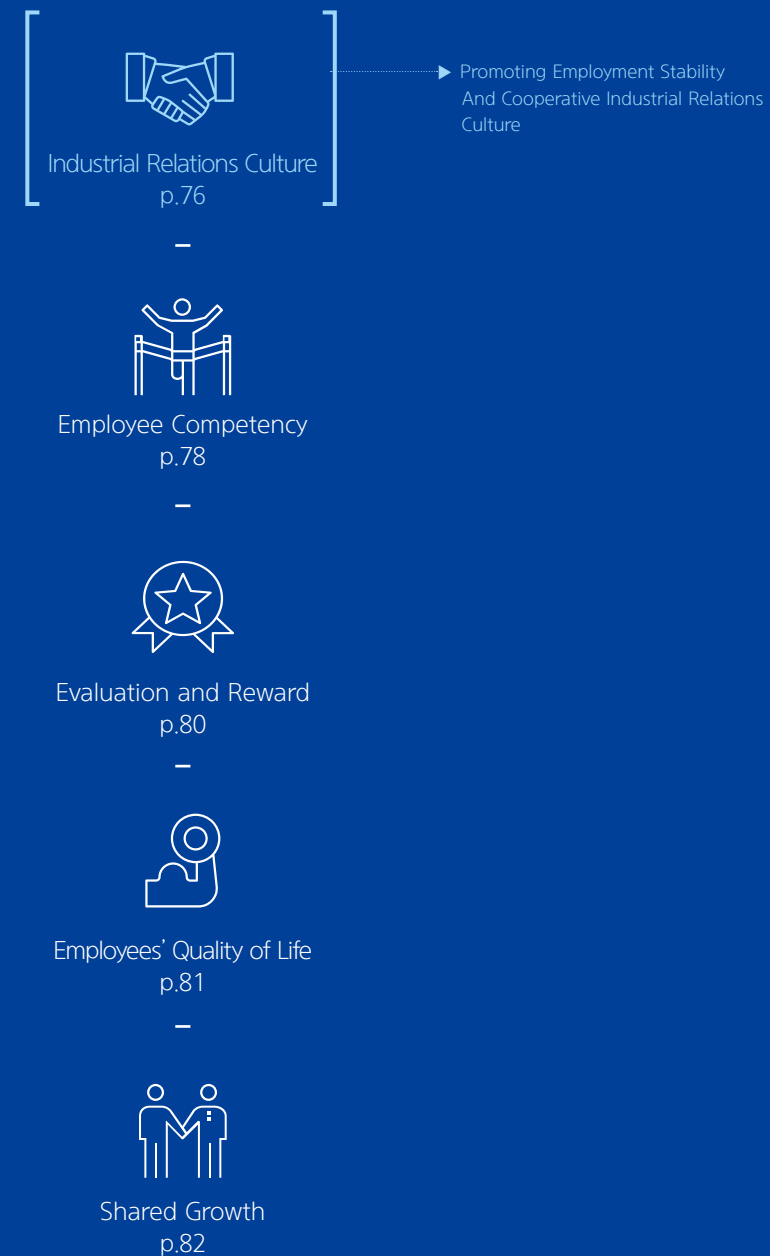
85,149

Participants in Retirement Planning Program in 2016

806

Reported Issues for Upholding a Company Culture of Mutual Respect and Trust

● Core Issue ● Other Issue ▶ Relevant Materiality Assessment Item



Industrial Relations Culture

Direction

HHI strives to create an environment where every employee can work with passion and happiness based on mutual respect and trust. We respect the rights of workers, strictly comply with the related laws and regulations, and continue to establish industrial relations that embody the culture of cooperation and mutual growth by engaging in sincere dialogues.

Labor Union Membership Status

	2014	2015	2016
Eligible Employees	18,731	17,392	13,396
Members	17,849	16,740	13,246

Activities for Advanced Industrial Relations in 2016

1 Collective Bargaining and Labor Management Council

HHI improves employees' working conditions and benefits through regular discussions, including biennial collective bargainings, annual wage negotiations and the quarterly Labor-Management Council meetings. In 2016, the Labor Management Council discussed 24 agendas and agreed on 17 including installation of on-site restrooms.

2 Management Status Briefing

HHI hosts regular business and management status briefings both for whole employees in each division and the labor union leaders. On July 1, 2016, HHI hosted the emergency management briefing for the first time since foundation of the company to share the current status and improvement plans to overcome today's crisis. A total of 3,000 employees were present at the briefing to find solutions to the current crisis and had a Q&A session with the management. The briefing broadcasted through the intra-broadcasting system.

3 Labor Relations Training

HHI provides educational programs for employees to build a healthy perspective towards industrial relations and boost their conflict-solving capabilities. In 2016, seven training classes were held to build the frame for cooperative relations.

Training Programs

- New Recruits Training
- Team Leader Training
- Position Level Training
- Manager Training
- Junior Board Training
- Master Board Training
- Substantial Management Training

Inter-Communication Activities in 2016

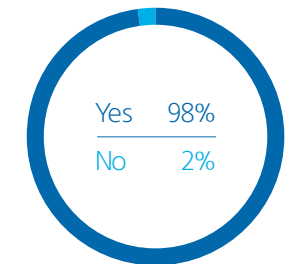
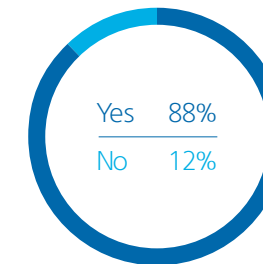
1 Dialogue with the Management of Business Divisions

Recognizing the importance of internal communication for achieving the corporate goal, HHI held meetings between employees and the management-level personnel. Heads of divisions, chief of the headquarters and other executives participated in the meeting sharing the vision of the company, company policy and direction. These events provided opportunities for employees to freely ask questions about current issues while suggesting ideas and opinions.

Survey on Communication with the Division Heads

Q1. Do you think the Dialogue provided an opportunity for direct communication between the management and employees?

Q2. Do you think HHI should continue to facilitate dialogues with the management?



2 Mentoring Program

HHI operates a mentoring program for employees to enhance their competencies, adjust to the organization and maintain a work-life balance. The one-on-one mentor and mentee relationships between junior and senior employees help build greater competency for junior staffs, as well as voluntary cooperative culture based on communication

3 Internal Knowledge Sharing Platform

Since 2015, HHI has been operating Hi-Square, an internal knowledge sharing platform where employees can ask company-or work-related questions on a real-time basis. Employee can exchange their opinions anonymously as Hi Square is intended to offer a venue for free communication and sharing. Employees engage themselves in active communication, by sharing their knowledge on their tasks, economy and other common sense of life, and collecting opinions on company policies with open votes.

Plans for 2017

In the midst of unprecedented crisis in the shipbuilding industry, sound labor relations for co-existence and cooperation has never been so critical. HHI will build a consensus to overcome current crisis through communication and will become an epitome of labor-management cooperation.

Employee Competency

Human Resources Development

HHI endeavors to foster employee competency to build business competitiveness and enhance performance, focusing on leadership, job functions and global talents. Additionally, HHI emphasizes the importance of continuous self-development and provide opportunities to improve job-related capabilities for employees at the affiliates and business partners.

Human Resource Development Strategy

Foster Leaders, Specialists and Global Talents
Who Will Lead HHI's Future

Main Initiatives in 2017

- Foster leaders with a focus on core talents
- Foster job experts for each business
- Foster talented individuals who will lead the global business

Training Programs

HHI has developed programs customized by working situations and positions to help the employees utilize their full capabilities in their workplace.

Key Training Programs for Each Area

Training	Key Programs
Value Training	Orientation and training camp for new recruits, mentoring, organizational vitality programs
New Position Training	Training for promoted employees, new managers, new executives, and new team leaders
Leader Training	Training for to-be executive and department heads, management academy, junior board, master board
Global Training	Expatriates training, corporation head candidate training, overseas short-term study program, language study, GE training
Job Training	Group training for special tasks, day-time and night-time voluntary job training, online education, reading correspondence courses
Technical Training	Technical training program, employee skill improvement, certificate acquisition, craftsmanship training, training for international vocational competition, HHI Technical College
Affiliates Training	Core job training, partner trainings, skill trainings for new recruits
Other Training	Retirement planning, substantial management practices

Key Activities and Achievements in 2016

1 Employee Competency Performance

HHI invested KRW 7.4 billion to offer 103 training courses in which a total of 85,149 employees participated.

	Unit	2014	2015	2016
Participants in Training(cumulative)	People	145,953	116,371	85,149
Total Number of Training Hours	Hours	2,430,689	2,037,966	1,650,906
Investment in Training	bn. KRW	12.2	12.6	7.4

* Reported figures are based on information gathered as of February 2017 and may change in the future.

2 Road Map of Organizational Task Training

HHI established a training system that reflects business characteristics and suggested the job training roadmap to foster specialists. HHI will improve the training courses based on the established job training system, and link them with job capability assessment to enhance its effectiveness.

3 Job Training Programs

HHI offers group training courses to foster practical skills; self-study courses that trainee can organize training terms and subjects; and consortium training courses that enhance more specialized capability.

Job Training Courses and Participants

		2014	2015	2016
Group Training	Course	11	26	26
	Participant	596	2,680	831
Self Study	Course	412	333	220
	Participant	6,169	5,119	3,099
Consortium Training	Course	-	32	94
	Participant	-	328	873

Plans for 2017

HHI plans to forge development basis by building a systematic training system and expanding commonly required trainings for all HHI's employees. HHI will have regular HHI Group HRD exchange meeting to embrace different voices from the stakeholders to improve learning and development environment. HHI will focus on fostering individuals with core and technical talents who will lead the future businesses based on the talent development initiative, and make trainings more effective with strict education management. HHI will build a practical educational environment where employees can improve their capabilities by means of customized solutions based on the result of skill assessments.

Evaluation and Reward

Direction

HHI's transparent and objective performance evaluation and compensation system assesses our employee's efforts with fairness. In addition, various reward systems are in place to motivate the employees and build a work environment to feel a sense of accomplishment.

Performance Evaluation System

Percentage of employees evaluated for performance in 2016

91.9

* Employees newly hired, on leave, or planning to retire have been excluded from the figure.

Every employee is subject to performance evaluation during the first and the second half, which will be used to determine promotion, reward, capacity building and leader selection. Performances are managed on a regular basis throughout the year to establish the foundation of evaluation. Employee's performance and work capability are comprehensively evaluated. Management personnel at the level of division head and above are evaluated by comparing their personal goals against the actual achievements, while annual comprehensive leadership examinations are conducted and results are used as preliminary data to change manager's position.

Evaluation Process

STEP1	STEP2	STEP3	STEP4	STEP5	STEP6	STEP7
Set management goals(head of division and above)	Select evaluation managers	Self-evaluate	1st & 2nd round evaluation	Determine the rating	Host an adjustment committee	Disclose the result and make grievance appeal
Set management goals based on business plan and job responsibility	Select 1st and 2nd level evaluation managers	Self-evaluation by employee	Evaluation by 1st and 2nd evaluation managers	Finalize the rating based on the 1st and 2nd round evaluations	Adjust the final rating by section executives	Transparent result disclosure and grievance appeal

Compensation System

HHI reflects inflation rates on salary increase to support stable living of employees. Managers and above are subject to performance-based salary system, through which employee receives different compensation based on performance evaluation which corresponds to actual achievements. HHI applies the same standard to both male and female employees in determining the salary level.

Reward Policy

HHI significantly improved its rewarding system in April 2016 to motivate the employees further. Excellent performing individuals or organizations are immediately rewarded to encourage. The maximum amount of reward has been increased to KRW 100 million, and the process became fairer by inviting external experts to achievement review committee. HHI also created "Hidden Hero Award" and "Praise Your Colleague Campaign" to establish a positive culture with compliments and encouragement.

Employees' Quality of Life

Direction

HHI operates its welfare program under the principle of providing practical supports to different needs of the employees. HHI helps the employees maintain the work-and-life balance by offering systematic supports, including intra-company labor welfare fund, reward system for long-serving employees, medical support system, scholarship system, and family event support.

Welfare Programs

Stable Housing/Living Support	Medical/Health Support	Retirement Planning
<ul style="list-style-type: none"> Loan interest support Incentives for family events 	<ul style="list-style-type: none"> Financial support for treatment Support medical checkups for family members 	<ul style="list-style-type: none"> Retirement planning support Retirement pension
Educational Support	Maternity Support	Support for Leisure Activities
<ul style="list-style-type: none"> Tuition for children Overseas study programs 	<ul style="list-style-type: none"> Corporate childcare facilities Happy Mom Package Plan 	<ul style="list-style-type: none"> Vacation facilities(hotel, condominiums, resorts, etc.) In-company hobby club support

Key Activities and Achievements in 2016

Retirement Pension
Unit: bn. KRW

2014	908.5
2015	907.0
2016	993.0

1 Retirement Planning

HHI developed supporting programs to plan our employees' post-retirement life. In 2016, a total of 806 employees scheduled to retire learned how to manage the asset and health care, and shared information to prepare for the new chapter of their lives, in such as re-employment, business startup and returning to farming programs.

2 Retirement Pension

HHI offers retirement pension benefits to every employee who worked over one year. HHI adopted Defined Benefit(DB) Pension System as per the agreement with the union, and seeks to achieve stability and profitability by hiring pension fund management companies with high credibility.

3 New Recruits' Parents Invitation Event

HHI invites the parents of new recruits to the worksites to show them our appreciation. In 2016, 357 new recruits went on a company tour with their parents at three different occasions to boost the employees' morale and fellowship.

4 Child Care Leave

HHI encourages the employees to take child care leave to maintain the balance between work and home. In 2016, 101 employees took child care leave, and the number of male employees taking the leave has increased substantially compared to 2015.

Employees on Child Care Leave
Unit: male / female

2014	14/56
2015	31/83
2016	52/49

Shared Growth

Direction

Under the core value of "Just, Fair and Legitimate Performance," HHI supports the development and growth of our business partners. HHI will build a healthy corporate ecosystem where everyone can grow together by implementing fair trade practices and support the partners' competency.

Policy and Operating System

Core Value	Just, Fair and Legitimate Performance		
Core Policy	Continuous System Improvements	Establishing Fair Trade Practices	Enhancing Competitiveness of Partners
	Main strategies highlights: protecting partners' market, encouraging businesses of small and mid-sized companies, and building up support system	Introduce and comply with the four key guidelines of the Fair Trade Commission, establish reasonable trade practices and improve communication with subcontractors	Support partner's sales, training, employment, technology and finances; adjust prices in consideration of business circumstances
Supporting Organizations	Group Shared Development Committee	Shared Growth Diffusion Council	Shared Growth Organizations
	Company-wide coherent policy, activity planning and consultation for shared growth	Develop policies for mutual growth and cooperation with primary and secondary subcontractors	Implement shared growth policy and activities, and provide performance management and feedbacks

Key Activities on Shared Growth

1 Support for Sales Expansion

HHI assists the partners in increasing their sales by jointly venturing into international markets and promoting partners' technological competitiveness to potential customers in domestic and international industrial trade shows.

2 Support for Training and Human Resources

HHI provides the partners with skilled workforce for specific works and trainings for their employees. HHI offers 800 online courses, including work, computing and languages, and 60 courses to secondary and tertiary partners at the Shared Growth Training Center. In addition, HHI supports its partners' quality management by assigning product quality inspection experts.

3 Technical Support

HHI provides technical support to the partners in various ways by transferring new technology and unused patents or partially sharing licenses of technology. In addition, HHI develops new technologies in tandem with the partners and help improve their technical competency by applying for a patent.

Participants in Partner Online Training Courses

1,825

Key Achievements in 2016

4 Global Hyundai Integrated Procurement System(G-Hipro)

Via the electronic bidding system G-Hipro, HHI transparently discloses our procurement in quotes, technical review, bidding and internal review, and enhance the efficiency of the contract process such as contract, delivery, transaction receipt and payment.

5 Financial Supports for Partners

HHI deposited KRW 149.2 billion in four financial institutions to create a Shared Growth Fund of KRW 447.6 billion for our partners' loan interest payments. Since 2011, HHI has set a system to fully pay in cash to the partners for material costs in an effort to improve their liquidity. HHI pays three times a month, within ten days of bill issuance. In terms of holidays and summer vacation, HHI makes payments earlier than schedule to help our partners efficiently manage their funds.

1 Early Payment for the Partners

Prior to the Lunar New Year holidays in 2016, HHI made early payments of KRW 218.4 billion to 2,002 partners. During the summer vacation in August, HHI paid KRW 178.7 billion to 1,583 partners, prior to the Chuseok holidays; HHI made early payments of KRW 64.6 billion to 997 partners so that they can pay their employees holiday bonuses.

2 Supporting the Partners

HHI's chief procurement executive and department heads visited 209 primary partners to listen to their voices on shared growth policy. In May, HHI hosted a joint procurement exhibition with Ulsan Creative Economy Innovation Center to discover new partners. Out of 62 participants, 9 vendors were officially registered for our contractor list after estimation and inspection.

3 Fostering Technical Talent and Employment Support

HHI's Technical Education Institute fosters technical talent and recommend them to our partners for employment opportunities. The Technical Education Institute offers essential courses for welding, fitting, piping, machinery, electricity and painting. In 2016, 503 people were newly employed by 126 partners.

4 Recognized as "Excellent Company" in Shared Growth

In recognition of ceaseless shared growth activities and efforts, HHI was ranked "Excellent" by the Korea Commission for Corporate Partnership(KCCP) in Shared Growth Index Evaluation announced on June 30, 2016.

HHI will persist in our existing shared growth policy and improve our activities to achieve more effectiveness by means of communication with our partners.

Plans for 2017

Disclosure on Management Approach

Contributing to the Development of a Society as a Global Corporate Citizen

HHI pursues a society of shared happiness under the core values of love, sharing and happiness. We will make a better future, by creating shared values with strategic social contribution activities.

Making Kimchi with Love Event
In 2016

10,000 Heads of Cabbage

Salary Donation Campaign
Participants in 2016

26,023

Fund Raised Through Employee
Praise Campaign in 2016

KRW 16 million

Strategy and Achievements

HHI spreads its proud culture of sharing and reaches out to the less privileged neighbors in its community by holding long-standing activities such as “Charity Bazaar with Love” and “Making Kimchi with Love.” The commitment and dedication its employees have shown in volunteering activities including fundraising and event organizing are what makes these meaningful events much more meaningful.

Plans

HHI plans to focus on local community-based activities around each worksite. We will encourage voluntary participation of employees and build a culture of sharing by facilitating strategic and systematic social contribution activities.

Reported Issues for Contributing to the Development of a Society as a Global Corporate Citizen

● Core Issue ● Other Issue ▶ Relevant Materiality Assessment Item



Social Contribution
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Educational Support
For Future Generations
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Social Contribution

Philosophy for Spreading Sharing Culture

Key Activities and Achievement in 2016

HHI gathers strength together by giving a touch of warmth to our neighbors in need and spreads our proud culture of sharing by redistributing the profits generated to society.

1 Charity Bazaar with Love

During the 23rd Charity Bazaar with Love 2016 held for three days from November 2, HHI collected donations from its employees, local community organizations, local celebrities, Ulsan Hyundai Football Club, foreign shipowner and supervisors working at HHI for the charity sales. A total 20,000 pieces of donations were collected including 13,000 from employees of HHI and its affiliates. The proceeds were used to hold the "Making Kimchi with Love" event and were awarded as scholarships for students in Ulsan where HHI is headquartered.

2 Making Kimchi with Love

"Making Kimchi with Love" is an annual event of making and sharing kimchi with neighbors in need. The event has become one of the signature philanthropic activities of HHI, which began in 1991 and has shared 167,000 heads of cabbage in total thus far. At the 26th event on December 7, 2016, 400 employees and volunteers made kimchi from 10,000 heads of cabbage and then shared them with 63 local welfare facilities and 1,300 underprivileged households in the community. The event was even more meaningful since 5,000 organic cabbages and 3,000 radishes used in the event were harvested from the Children's Nature Learning School of Hyundai Institute run by HHI.



Charity Bazaar with Love



Making Kimchi with Love

3 Sharing Funds

HHI runs various activities to raise funds for our underprivileged neighbors. With the enthusiastic support from our employees, the raised funds are donated to our neighbors in need via Community Chest of Korea, ChildFund Korea, and Ulsan Metropolitan City Dong-gu Office.

Major Donations

Salary Donation Campaign	Our employees donate the Woosuri(odd money under KRW 1,000) of their monthly salary. The fund raised from the campaign are given to the Ulsan branch of Community Chest of Korea, the Korea Heart Foundation, and the Korean Association for Children with Leukemia and Cancer(KAACL). A total of 26,023 employees joined in the meaningful Woosuri Movement, raising a total of KRW 211 million in 2016.
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4 Spring Picnic with People with Disabilities

Since 1992, HHI has been a proud sponsor of "Oddugi Party," the largest festival for the people with disabilities in Ulsan. In 2016, HHI invited 2,300 disabled students from special schools and social welfare facilities to a picnic to an amusement park at Gyeongju. The participants having difficulties going out at ease enjoyed rides under the warm sunlight of spring with help from volunteers.

5 Praise Your Colleague Campaign

On December 2016, HHI hosted "Santa Claus Event" in partnership with ChildFund Korea Ulsan headquarters. HHI's employees dressed up as Santa Claus one day, designed the gift themselves and delivered them to 200 underprivileged children in local area. This event was supported by the HHI's Praise Your Colleague Campaign launched in April 2016 in which KRW 100 is donated from their monthly salary to the fund for every praise point an employee gives to his/her colleagues. The campaign facilitated the spread of its culture of encouragement among employees, and raised a total of KRW 16 million for charity.

Educational Support for Future Generations

Philosophy for Community Development

HHI has committed to developing the local communities and to improving the quality of life of the local residents under the philosophy of "Contributing to the development of a society as a global corporate citizen." Through One Company One Village Affiliation campaign and Use Traditional Market More campaign, we are playing a key role in boosting local economy. HHI also continuously takes environment preservation activities in a way to make local communities better place to live.

Key Activities and Achievements in 2016

1 One Company One Village Campaign

HHI has forged sisterhood relations with four rural villages in Miryang(Sannae-myeon), Ulsan(Jujeon-dong), Ulju(Eonyang-eup) and Gyeongju(Jilli Village) since 1992 to promote mutual growth with these agricultural communities. We have fostered relationships with farming villages over 10 years. We have purchased food ingredients for the in-house cafeterias from our sister villages in a way to provide them with stable income streams, and volunteers to help them during busy seasons. In November 2016, HHI's volunteer group composed of 200 employees visited Dongmyeong village in Miryang, Gyeongnam and helped 30 resident families pick apples.

2 Use Traditional Market More Campaign

HHI has been purchasing and sharing Onnuri gift certificates that can only be used in local traditional markets since 2011 in an effort to encourage local residents to use traditional markets more often. In 2016, HHI purchased KRW 235 million worth of Onnuri gift certificates and provided them for its employees as well as the underprivileged and social welfare facilities in the local area.

3 Sharing with Local Senior Citizen Centers

HHI has supported local senior citizen centers to show respect for the elders and share love with neighbors for the past 20 years. We have forged relationships with 57 senior citizen centers and conducted volunteer activities such as delivering 2,000kg of rice every month, and cleaning, painting and repairing of the senior centers.

4 Environmental Protection Activity

We have been actively involved in environmental protection activities such as "One Company One Stream Cleaning Campaign, Clean Seashore Campaign" in surrounding mountains, rivers and seaside areas. We also hold environment-related photo contests in a way to awareness about environmental protection among local residents.

Plans for 2017

HHI will continue to faithfully execute its responsibilities as a global corporate citizen by holding activities including Charity Bazaar with Love and Making Kimchi with Love, and by conducting activities that are customized to local communities. In addition, we will encourage more of our employees to volunteer and take pride in these social contribution activities.

Fostering Future Leaders

We continue to provide educational support for the youth in fulfilling their dreams. Now we support the University of Ulsan, Ulsan College, two kindergartens, and five middle and high schools. Also, Asan Nanum Foundation gives the youth opportunities to grow as global leaders.

Hyundai Schools

Facilities	Year Established	Activities
Dongbu & Seobu Kindergartens	1974	Provide educational environment and various activities suitable for the development of young children
Hyundai Middle School	1978	Co-ed schools with high-quality education facilities to foster future leaders
Hyundai High School	1984	
Hyundai Chung-Un Middle School	1984	Runs CEC program(Creativity · Personality, Emotion · Health, Career · Learning)
Hyundai Chung-Un High School	1981	Runs CAG Leadership Program(Character Building, Academic Excellence, Global Leadership)
Hyundai Technical School	1978	Fosters tailored functional talent through Meister Schools and specialized high school academic programs
Ulsan College	1973	Runs dual systems in Dongbu Campus and Seobu Campus
University of Ulsan	1969	Wide ranging of scholarship programs, investment to foster global talent, and state-of-the-art facilities on the back of the nation's top-level financial independence



University of Ulsan

Asan Nanum Foundation

Asan Nanum Foundation was founded in 2011 by the family of Hyundai Group's founder Chung Ju-yung and Hyundai companies. The foundation has provided funds to promote domestic startups and to foster entrepreneurship among young talent in accordance with the foundation's slogan: "Our society develops with vitality of our youth."

Key Programs of Asan Nanum Foundation

Asan Frontier Academy	The academy fosters the future leaders in the non-profit sector, and provides all trainees with overseas study opportunities at international organizations.
Asan Frontier Fellowship	The fellowship program provides special programs for young activists looking to learn real experiences build global networks and work at international NGOs.
Asan Institute for Policy Studies	The study program benchmarks the "Philosophy, Politics and Economics(PPE)" curriculum at the University of Oxford, providing humanities studies of history, philosophy, politics, economics and literature.
Chung Ju-yung Startup Competition	The competition is designed to expand the entrepreneurial culture in Korea by exploring and assisting startups and entrepreneurs with pioneering spirit.



Chung Ju-yung Startup Competition

Culture and Arts

Cultural and Art Centers

HHI operates four cultural and arts centers including Hanmaeum Center opened in 1991 in order to provide access to high quality cultural activities for local residents. Based on our accumulated experiences of management know-how, we contribute to expanding the horizon of culture and arts for the benefit of the local residents by providing a variety of cultural programs.

HHI Cultural and Arts Centers Overview

Facilities	Year Established	Activities
Hyundai Arts Center	1998	The largest cultural center in Ulsan with a high quality performance theater, art gallery, cinema and sport facilities
Hanmaeum Center	1991	Provides continuing education programs for local communities with sports facilities, cinemas, galleries, an art academy and a children's library
Dongbu Center	1994	Focuses on sports classes with a physical training room, a swimming pool, and aerobic facilities to promote healthy and active lifestyles for local residents
Seobu Center	1995	Provides courses to help local communities obtain licenses and startup businesses

Centers in Numbers in 2016

Concert Hall	Planned Programs	14	Hanmaeum Center	Cultural Classes	89
	Venue Programs	13		Sports Classes	12
	Seat Occupancy	81%	Dongbu Center	Cultural Classes	12
	Visitors	25,583		Sports Classes	4
HHI Arts Center Chamber Hall	Planned Programs	4	Seobu Center	Cultural Classes	14
	Venue Programs	11		Sports Classes	4
	Seat Occupancy	85%			
Movies	Screenings	140			
	Visitors	259,916			
Exhibitions	Exhibitions	5			
	Visitors	18,183			

Hyundai Arts Center's Key Performance in 2016

1 Maksim Mrvica Solo Concert

A crossover pianist Maksim Mrvica performed at Hyundai Cultural and Arts on May 13, 2016, his second play since 2014. The audience gave enthusiastic applause to his dynamic quick fingerings and passionate performance as indicated by his nickname 'Fingers from God.'

2 The Korean National Ballet, "Spartacus"

On September 2 and 3, the Korean National Ballet performed "Spartacus" at Hyundai Arts Center. The performance conveyed unprecedented beauty of ballet as masculine group dances excited the audience with dynamic body moves. The Korean National Ballet's performance in Ulsan was the only showcase held in non-Seoul areas, and was received with great acclaim.

3 Jang Sa-ik's "Soripan"

The best pansori performer Jang Sa-ik gave deeply moving performances characterized by his unique traditional sound and rhythm on October 21. His unique singing style and powerful voice immersed with emotions appealing to Koreans touched the audience.



Spartacus



Jang Sa-ik's "Soripan"

Major Exhibitions at Hyundai Arts Center in 2016

1 Local Artists' Exhibitions

To vitalize and foster local art sector, the Local Artist Invitational Exhibition was held to display artworks of artists based in Ulsan covering a range of genres including painting, photography and sculpture. Held in a form of relay, it helped local artists get a foothold in the market and attract attention.

2 The World's Famous Painting with Monica

Mauricio De Sousa is a world-famous cartoonist who created the most beloved character in Brazil, Monica. 150 pieces of his artwork were exhibited at Hyundai Arts Center, which were parodies of master paintings owned by top-tier galleries in the world with cartoon characters. The exhibition was an educational and enjoyable experience for both children and adults.

Promoting Arts and Culture in Community

1 Supporting Local Arts Organizations

Hyundai Arts Center support five local arts organizations: Dong-gu Ladies' Choir; Ulsan Men's Choir; HHI Orchestra; Hyundai Youth Symphony Orchestra; and Hyundai Boys' and Girls' Choir. All organizations are fertile in performances including regular concerts, and play a vital role in raising awareness of local arts community by winning prizes from national contests.

2 Lobby Concert

HHI started "Lobby Concert" in 2001, providing venues and musical instrument for local residents, students, hobbyists and other amateur musicians to perform at the lobby of Hyundai Arts Center. Since 2010, Lobby Concert have been held twice a month to expand the base of arts in the region and to provide opportunities for local residents to enjoy musical performances in their daily lives.

Plans for 2017

We will expand our culture and arts programs customized to students and local residents. HHI will also continue to contribute to enhancing the quality of life for local residents by offering high quality culture and arts experiences. HHI will also make efforts to create synergy by establishing cultural partnerships with arts centers in other areas.

Scheduled Performances at Hyundai Arts Center in 2017

Classics	Musicals	Plays	Live Performances	For Children	Korean Traditional Music	Dance	Crossover	Total
2	1	3	9	2	1	1	3	22

Financial Statement

Statements of Financial Position

Unit: KRW 1,000

	2014		2015		2016	
	Consolidated	Separate	Consolidated	Separate	Consolidated	Separate
Asset						
Current Asset	29,871,608,665	14,778,729,467	27,176,013,471	13,387,654,798	26,036,646,131	12,372,120,461
Cash and cash equivalents	3,229,315,488	1,407,943,949	3,105,303,361	1,332,253,032	4,326,867,973	2,547,116,084
Short-term financial assets	4,742,522,625	149,731,816	4,627,226,992	149,700,000	4,693,132,422	179,704,592
Trade and other receivables	5,734,112,198	2,965,451,971	5,340,950,322	3,504,975,622	5,189,256,175	2,721,688,421
Due from customers for contract work	7,154,045,476	4,706,154,739	6,599,947,481	4,017,527,639	5,275,519,774	3,418,145,982
Inventories	5,822,203,196	3,111,765,221	4,492,239,892	2,621,567,880	3,907,314,032	1,733,645,065
Derivative assets	127,428,741	101,394,184	41,755,610	11,924,137	10,548,334	656,978
Firm commitment assets	102,390,560	59,425,040	361,396,671	207,722,591	235,647,323	174,048,230
Prepaid income taxes	63,330,607		59,476,191		13,719,006	
Non-current assets held for sale					77,507,145	77,507,145
Other current assets	2,896,259,774	2,276,862,547	2,547,716,951	1,541,983,897	2,307,133,947	1,519,607,964
Non-current assets	23,512,809,176	17,220,629,398	22,556,822,517	16,797,125,936	23,212,529,091	17,194,768,745
Investments in associates and joint ventures	554,290,606	6,315,714,090	270,052,006	6,219,323,163	299,528,979	6,760,405,275
Long-term financial assets	2,496,029,851	1,052,224,824	1,189,482,706	385,522,655	502,566,999	86,305,689
Long-term trade and other receivables	930,131,965	294,797,046	589,099,760	241,282,584	347,764,522	69,529,276
Investment property	393,474,781	410,791,189	347,868,346	394,289,135	240,607,127	269,315,478
Property, plant and equipment	16,060,222,102	8,255,085,223	16,320,002,213	8,063,522,143	19,011,265,678	9,093,570,754
Intangible assets	2,211,628,038	365,622,486	2,140,184,872	320,933,442	1,962,966,389	282,801,285
Derivative assets	19,375,757	16,383,248	9,374,626	2,521,814	75,361	521
Firm commitment assets	153,874,765	85,793,200	294,765,973	210,208,415	54,548,082	29,878,857
Deferred tax assets	629,359,589	424,218,092	1,350,103,038	959,491,519	741,748,426	602,932,691
Other non-current assets	64,421,722		45,888,977	31,066	51,457,528	28,919
Total assets	53,384,417,841	31,999,358,865	49,732,835,988	30,184,780,734	49,249,175,222	29,566,889,206
Liabilities						
Current liabilities	27,702,671,033	13,554,099,295	23,060,645,568	11,886,590,832	23,237,168,919	11,882,223,893
Short-term financial liabilities	12,129,708,393	3,643,119,149	9,502,483,275	3,608,630,788	12,058,817,120	5,210,942,961
Trade and other payables	6,362,168,342	3,686,939,733	5,874,330,417	3,366,361,634	5,615,010,136	2,618,958,310
Advances from customers	705,470,656	756,823,764	532,641,433	620,639,833	421,450,014	449,308,263
Due to customers from contract work	8,140,673,917	5,257,296,786	6,394,046,502	3,971,292,760	4,413,659,665	3,268,813,099
Derivative liabilities	204,790,242	145,513,550	571,856,159	313,438,581	436,361,034	290,613,061
Firm commitment liabilities	78,981,745	63,740,551	9,147,694	6,227,236	4,339,753	4,140,905
Income tax payable	42,905,141	665,762	117,913,382		249,067,371	39,447,294
Short-term provisions			4,104,690		5,331,117	
Other current liabilities	37,972,597		54,122,016		33,132,709	
Non-current liabilities	9,043,171,146	4,672,054,756	11,173,228,891	5,926,401,075	8,122,254,793	3,865,128,226
Long-term financial liabilities	7,440,036,077	3,657,384,068	9,205,874,590	4,619,045,403	6,475,729,857	2,823,572,554
Long-term trade and other payables	104,396,800	11,581,151	98,727,876	11,080,876	69,858,445	6,030,792
Liabilities for defined benefit plans	551,233,374	442,146,969	546,242,180	433,727,355	256,412,747	186,417,260
Long-term provisions	502,372,244	460,316,383	715,803,496	644,244,345	932,292,470	814,767,143
Derivative liabilities	162,567,299	90,070,108	303,487,526	215,894,355	59,009,461	34,340,236
Firm commitment liabilities	13,059,104	10,556,077	9,032,154	2,408,741	75,081	241
Deferred tax liabilities	235,878,849		260,665,827		296,238,223	
Other non-current liabilities	33,627,399		33,395,242		32,638,509	
Total liabilities	36,745,842,179	18,226,154,051	34,233,874,459	17,812,991,907	31,359,423,712	15,747,352,119

Part. 04

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Unit: KRW 1,000

	2014		2015		2016	
	Consolidated	Separate	Consolidated	Separate	Consolidated	Separate
Equity						
Paid-in capital	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000
Capital stock	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000
Common stock	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000	380,000,000
Capital surplus	1,109,309,014	1,044,516,633	1,124,895,931	1,057,927,830	1,124,895,931	1,057,927,830
Hybrid bonds	428,589,000	428,589,000	428,589,000	428,589,000	428,589,000	428,589,000
Capital adjustments	(1,762,535,173)	(1,400,454,947)	(1,341,552,282)	(966,932,733)	(1,367,899,180)	(966,932,733)
Other components of equity	746,492,455	306,094,650	325,410,971	85,255,452	1,937,430,922	1,205,863,200
Accumulated other comprehensive income	746,492,455	306,094,650	325,410,971	85,255,452	1,937,430,922	1,205,863,200
Retained earnings	14,271,926,021	13,014,459,478	12,818,775,666	11,386,949,278	13,433,436,089	11,714,089,790
Unappropriated retained earnings		13,014,459,478		11,386,949,278		11,714,089,790
Non-controlling interests	1,464,794,345		1,762,842,243		1,953,298,748	
Total equity	16,638,575,662	13,773,204,814	15,498,961,529	12,371,788,827	17,889,751,510	13,819,537,087
Total liabilities and equity	53,384,417,841	31,999,358,865	49,732,835,988	30,184,780,734	49,249,175,222	29,566,889,206

Statements of Comprehensive Income

Unit: KRW 1,000

	2014		2015		2016	
	Consolidated	Separate	Consolidated	Separate	Consolidated	Separate
Sales	52,582,404,205	23,463,461,064	46,231,713,943	24,472,344,053	39,317,290,030	19,541,421,822
Cost of sales	53,299,441,785	24,053,489,027	44,681,972,337	24,386,489,137	34,752,611,481	17,404,627,895
Gross profit(loss)	(717,037,580)	(590,027,963)	1,549,741,606	85,854,916	4,564,678,549	2,136,793,927
Selling, general and administrative expenses	2,532,417,385	1,333,222,550	3,089,872,793	1,762,244,404	2,922,825,277	1,757,641,003
Operating profit(loss)	(3,249,454,965)	(1,923,250,513)	(1,540,131,187)	(1,676,389,488)	1,641,853,272	379,152,924
Finance income	1,611,112,500	827,640,101	1,901,598,919	1,203,241,214	1,616,791,162	1,351,457,882
Finance costs	1,938,268,861	1,242,257,519	2,933,329,474	1,676,371,427	2,032,870,239	1,140,859,834
Other non-operating income	970,726,316	425,642,895	1,197,159,266	766,761,058	618,679,653	300,450,948
Other non-operating expenses	462,059,802	424,926,390	410,932,602	697,837,409	827,712,361	499,069,030
Share of profit(loss) of equity accounted investees	(37,100,275)		(55,783,702)		69,167,016	
Profit(loss) before income taxes	(3,105,045,087)	(2,337,151,426)	(1,841,418,780)	(2,080,596,052)	1,085,908,503	391,132,890
Income tax expense	(898,980,392)	(582,474,217)	(478,195,977)	(532,538,728)	429,240,499	106,219,917
Net profit(loss)	(2,206,064,695)	(1,754,677,209)	(1,363,222,803)	(1,548,057,324)	656,668,004	284,912,973
Other comprehensive income(loss)	(643,455,207)	(357,734,141)	(536,862,387)	(279,999,541)	1,834,053,606	1,183,835,287
Items that are or may be reclassified subsequently to profit or loss	(502,267,360)	(246,110,720)	(444,866,013)	(220,839,198)	(147,607,804)	(88,703,614)
Change in fair value of available-for-sale financial assets	(495,770,561)	(216,563,440)	(433,381,779)	(263,187,034)	(178,311,716)	(92,131,192)
Change in fair value of cash flow hedge derivatives	(26,888,716)	(29,547,280)	44,423,068	42,347,836	1,819,210	3,427,578
Exchange differences on translating foreign operations	(35,333,047)		(6,810,172)		24,209,673	
Change in equity of equity method investments	55,724,964		(49,097,130)		4,675,029	
Items that will not be reclassified to profit or loss	(141,187,847)	(111,623,421)	(91,996,374)	(59,160,343)	1,981,661,410	1,272,538,901
Actuarial gains and losses	(149,579,380)	(111,623,421)	(91,745,010)	(59,160,343)	67,708,932	41,612,825
Revaluation of property, plant and equipment					1,913,855,919	1,230,926,076
Changes in retained earnings of equity method investments	8,391,533		(251,364)		96,559	
Total comprehensive income(loss)	(2,849,519,902)	(2,112,411,350)	(1,900,085,190)	(1,828,056,865)	2,490,721,610	1,468,748,260
Net profit(loss) attributable to:						
Owners of the parent company	(1,769,214,511)		(1,349,911,380)		545,121,490	
Non-controlling interests	(436,850,184)		(13,311,423)		111,546,514	
Comprehensive income(loss) attributable to:						
Owners of the parent company	(2,396,682,367)		(1,853,939,306)		2,247,680,373	
Non-controlling interests	(452,837,535)		(46,145,884)		243,041,237	
Earnings per share						
Basic earnings(loss) per share(Unit: KRW)	(32,049)	(28,641)	(24,349)	(25,159)	8,768	4,008

Consolidated Statements of Changes in Equity

Unit: KRW 1,000

	Equity								
	Equity attributable to owners of the parent company							Non-controlling interest	Total
	Common stock	Capital surplus	Hybrid bonds	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total		
Balance at January 1, 2014	380,000,000	1,109,309,014		(1,772,782,730)	1,239,973,279	16,293,099,047	17,249,598,610	1,779,993,147	19,029,591,757
Change in equity									
Comprehensive income									
Net profit(loss)						(1,769,214,511)	(1,769,214,511)	(436,850,184)	(2,206,064,695)
Change in fair value of available-for-sale financial assets					(484,097,563)		(484,097,563)	(11,672,998)	(495,770,561)
Change in fair value of cash flow hedge derivatives					(26,989,061)		(26,989,061)	100,345	(26,888,716)
Exchange differences on translating foreign operations					(37,677,622)		(37,677,622)	2,344,575	(35,333,047)
Change in equity of equity method investments					55,283,422		55,283,422	441,542	55,724,964
Actuarial gains and losses						(142,253,296)	(142,253,296)	(7,326,084)	(149,579,380)
Change in retained earnings in equity method investments						8,266,264	8,266,264	125,269	8,391,533
Revaluation of property, plant and equipment									
Total comprehensive income(loss)					(493,480,824)	(1,903,201,543)	(2,396,682,367)	(452,837,535)	(2,849,519,902)
Dividends						(117,264,016)	(117,264,016)	(5,988,909)	(123,252,925)
Disposal of treasury stock									
Issue of hybrid bonds			428,589,000				428,589,000		428,589,000
Interest for hybrid bonds						(707,467)	(707,467)		(707,467)
Issue of hybrid bonds in subsidiaries									
Others				10,247,557			10,247,557	143,627,642	153,875,199
Total change in equity			428,589,000	10,247,557	(493,480,824)	(2,021,173,026)	(2,075,817,293)	(315,198,802)	(2,391,016,095)
Balance at December 31, 2014	380,000,000	1,109,309,014	428,589,000	(1,762,535,173)	746,492,455	14,271,926,021	15,173,781,317	1,464,794,345	16,638,575,662
Balance at January 1, 2015	380,000,000	1,109,309,014	428,589,000	(1,762,535,173)	746,492,455	14,271,926,021	15,173,781,317	1,464,794,345	16,638,575,662
Change in equity									
Comprehensive income									
Net profit(loss)						(1,349,911,380)	(1,349,911,380)	(13,311,423)	(1,363,222,803)
Change in fair value of available-for-sale financial assets					(407,381,598)		(407,381,598)	(26,000,181)	(433,381,779)
Change in fair value of cash flow hedge derivatives					43,763,462		43,763,462	659,606	44,423,068
Exchange differences on translating foreign operations					(8,706,720)		(8,706,720)	1,896,548	(6,810,172)
Change in equity of equity method investments					(48,756,628)		(48,756,628)	(340,502)	(49,097,130)
Actuarial gains and losses						(82,697,349)	(82,697,349)	(9,047,661)	(91,745,010)

Unit: KRW 1,000

	Equity								
	Equity attributable to owners of the parent company							Non-controlling interest	Total
	Common stock	Capital surplus	Hybrid bonds	Capital adjustments	Accumulated other comprehensive income	Retained earnings	Total		
Change in retained earnings in equity method investments								(249,093)	(249,093)
Revaluation of property, plant and equipment									
Total comprehensive income(loss)					(421,081,484)	(1,432,857,822)	(1,853,939,306)	(46,145,884)	(1,900,085,190)
Dividends								(2,446,286)	(2,446,286)
Disposal of treasury stock		13,411,197		433,522,214			446,933,411		446,933,411
Issue of hybrid bonds								(20,292,533)	(20,292,533)
Interest for hybrid bonds									
Issue of hybrid bonds in subsidiaries									
Others		2,175,720		(12,539,323)			(10,363,603)	122,367,218	112,003,615
Total change in equity		15,586,917		420,982,891	(421,081,484)	(1,453,150,355)	(1,437,662,031)	298,047,898	(1,139,614,133)
Balance at December 31, 2015	380,000,000	1,124,895,931	428,589,000	(1,341,552,282)	325,410,971	12,818,775,666	13,736,119,286	1,762,842,243	15,498,961,529
Balance at January 1, 2016	380,000,000	1,124,895,931	428,589,000	(1,341,552,282)	325,410,971	12,818,775,666	13,736,119,286	1,762,842,243	15,498,961,529
Change in equity									
Comprehensive income									
Net profit(loss)						545,121,490	545,121,490	111,546,514	656,668,004
Change in fair value of available-for-sale financial assets								(137,347,777)	(137,347,777)
Change in fair value of cash flow hedge derivatives							2,346,072	(526,862)	1,819,210
Exchange differences on translating foreign operations						25,146,973	25,146,973	(937,300)	24,209,673
Change in equity of equity method investments							4,257,892	417,137	4,675,029
Actuarial gains and losses							64,944,606	2,764,326	67,708,932
Change in retained earnings in equity method investments							95,485	1,074	96,559
Revaluation of property, plant and equipment						1,743,115,633	1,743,115,633	170,740,286	1,913,855,919
Total comprehensive income(loss)						1,637,518,793	610,161,581	2,247,680,374	2,490,721,610
Dividends								(29,742,040)	(29,742,040)
Disposal of treasury stock									
Issue of hybrid bonds									
Interest for hybrid bonds							(21,000,000)		(21,000,000)
Issue of hybrid bonds in subsidiaries									
Others						(26,346,898)	25,498,842	(22,842,691)	(49,189,589)
Total change in equity						(26,346,898)	1,612,019,951	614,660,423	1,904,566,476
Balance at December 31, 2016	380,000,000	1,124,895,931	428,589,000	(1,367,899,180)	1,937,430,922	13,433,436,089	15,936,452,762	1,953,298,748	17,889,751,510

Separate Statements of Changes in Equity

Unit: KRW 1,000

	Equity								
	Common stock	Capital surplus	Hybrid bonds	Capital adjustments	Gain and loss on valuation of available-for-sale financial assets	Gain and loss on valuation of derivatives	Revaluation of property, plant and equipment	Retained earnings	Total
Balance at January 1, 2014	380,000,000	1,044,516,633		(1,400,454,947)	581,649,402	(29,444,032)		15,004,044,455	15,580,311,511
Change in equity									
Comprehensive income									
Net profit(loss)								(1,754,677,209)	(1,754,677,209)
Change in fair value of available for sale financial assets					(216,563,440)				(216,563,440)
Change in fair value of cash flow hedge derivatives						(29,547,280)			(29,547,280)
Actuarial gains and losses								(111,623,421)	(111,623,421)
Revaluation of property, plant and equipment									
Total comprehensive income(loss)					(216,563,440)	(29,547,280)		(1,866,300,630)	(2,112,411,350)
Disposal of treasury stock									
Dividends								(122,576,880)	(122,576,880)
Issue of hybrid bonds			428,589,000						428,589,000
Interest for hybrid bonds								(707,467)	(707,467)
Reclassification revaluation surplus									
Change in equity			428,589,000		(216,563,440)	(29,547,280)		(1,989,584,977)	(1,807,106,697)
Balance at December 31, 2014	380,000,000	1,044,516,633	428,589,000	(1,400,454,947)	365,085,962	(58,991,312)		13,014,459,478	13,773,204,814
Balance at January 1, 2015	380,000,000	1,044,516,633	428,589,000	(1,400,454,947)	365,085,962	(58,991,312)		13,014,459,478	13,773,204,814
Change in equity									
Comprehensive income									
Net profit(loss)								(1,548,057,324)	(1,548,057,324)
Change in fair value of available for sale financial assets					(263,187,034)				(263,187,034)
Change in fair value of cash flow hedge derivatives						42,347,836			42,347,836
Actuarial gains and losses								(59,160,343)	(59,160,343)
Revaluation of property, plant and equipment									
Total comprehensive income(loss)					(263,187,034)	42,347,836		(1,607,217,667)	(1,828,056,865)
Disposal of treasury stock		13,411,197		433,522,214					446,933,411
Dividends									
Issue of hybrid bonds									
Interest for hybrid bonds								(20,292,533)	(20,292,533)
Reclassification revaluation surplus									
Change in equity		13,411,197		433,522,214	(263,187,034)	42,347,836		(1,627,510,200)	(1,401,415,987)
Balance at December 31, 2015	380,000,000	1,057,927,830	428,589,000	(966,932,733)	101,898,928	(16,643,476)		11,386,949,278	12,371,788,827

Unit: KRW 1,000

	Equity								
	Common stock	Capital surplus	Hybrid bonds	Capital adjustments	Gain and loss on valuation of available-for-sale financial assets	Gain and loss on valuation of derivatives	Revaluation of property, plant and equipment	Retained earnings	Total
Balance at January 1, 2016	380,000,000	1,057,927,830	428,589,000	(966,932,733)	101,898,928	(16,643,476)		11,386,949,278	12,371,788,827
Change in equity									
Comprehensive income									
Net profit(loss)								284,912,973	284,912,973
Change in fair value of available for sale financial assets					(92,131,192)				(92,131,192)
Change in fair value of cash flow hedge derivatives						3,427,578			3,427,578
Actuarial gains and losses								41,612,825	41,612,825
Revaluation of property, plant and equipment							1,230,926,076		1,230,926,076
Total comprehensive income(loss)					(92,131,192)	3,427,578	1,230,926,076	326,525,798	1,468,748,260
Disposal of treasury stock									
Dividends									
Issue of hybrid bonds									
Interest for hybrid bonds								(21,000,000)	(21,000,000)
Reclassification revaluation surplus							(21,614,714)	21,614,714	
Change in equity					(92,131,192)	3,427,578	1,209,311,362	327,140,512	1,447,748,260
Balance at December 31, 2016	380,000,000	1,057,927,830	428,589,000	(966,932,733)	9,767,736	(13,215,898)	1,209,311,362	11,714,089,790	13,819,537,087

Independent Auditor's Report

Statements of Cash Flows

Unit: KRW 1,000

	2014		2015		2016	
	Consolidated	Separate	Consolidated	Separate	Consolidated	Separate
Cash flows from operating activities	1,506,674,748	1,271,995,306	(574,351,060)	(857,031,793)	2,766,743,775	1,504,871,216
Net profit(loss)	(2,206,064,695)	(1,754,677,209)	(1,363,222,803)	(1,548,057,324)	656,668,004	284,912,973
Adjustments	3,846,015,292	3,150,554,707	820,049,430	706,276,536	2,393,141,617	914,666,002
Interest received	305,835,273	41,524,469	255,811,333	26,508,929	201,900,761	37,717,072
Interest paid	(410,302,676)	(185,979,594)	(407,661,689)	(193,031,025)	(421,610,685)	(203,056,876)
Dividends received	92,296,690	89,440,674	86,977,614	68,314,243	50,633,453	436,599,807
Income taxes received(paid)	(121,105,136)	(68,867,741)	33,695,055	82,956,848	(113,989,375)	34,032,238
Cash flows from investing activities	(591,478,174)	(703,462,577)	(146,862,890)	(102,111,784)	(678,450,490)	65,763,353
Proceeds from sale of short-term financial assets	281,966,263	161,855,224	308,122,035	229,700,000	485,201,484	149,700,000
Proceeds from collection of short-term other receivables	9,489,599		4,967,260		1,811,403	4,820,358
Proceeds from sale of investments in associates and joint ventures	7,934,700	105,878,509	143,548,055	194,367,045	18,924,095	103,075,271
Proceeds from sale of long-term financial assets	1,259,339,673	17,670,003	1,599,798,825	507,552,640	1,233,268,495	204,622,195
Proceeds from collection of long-term other receivables	70,034,423	5,287,635	101,923,582	4,892,900	89,694,736	4,664,409
Proceeds from sale of investment property	15,236,500					
Proceeds from sale of property, plant and equipment	127,075,010	3,011,854	45,737,187	24,885,553	206,240,213	134,732,507
Proceeds from sale of intangible assets	5,843,993	3,894,285	24,683,479	20,967,795	16,789,280	6,812,129
Proceeds from sale of non-current assets held for sale					96,120,363	96,120,362
Proceeds from government grants	5,782,891		736,168		10,413,980	
Return of government grants					(15,634)	
Proceeds from collection of other non-current assets	669,690		7,059,480			
Acquisition of short-term financial assets	(289,406,901)	(161,855,224)	(362,221,184)	(229,700,000)	(676,837,851)	(179,700,000)
Acquisition of short-term other receivables	(25,089)		(63,469)		(26,281,624)	(4,820,358)
Acquisition of investments in associates and joint ventures	(20,133,500)	(134,229,857)	(45,856,960)	(309,712,675)	(26,795,472)	(129,653,734)
Acquisition of long-term financial assets	(561,192,828)	(959,220)	(634,495,468)	(520,550)	(864,749,889)	(437,055)
Acquisition of long-term other receivables	(58,065,178)	(3,826,020)	(36,447,519)	(27,708,698)	(38,611,064)	(69,486,372)
Acquisition of investment property	(402)		(232,536)		(24,889)	
Acquisition of property, plant and equipment	(1,487,037,877)	(641,461,840)	(1,280,691,731)	(471,600,289)	(1,144,385,917)	(204,514,440)
Acquisition of intangible assets	(64,899,898)	(58,727,926)	(52,947,165)	(45,235,505)	(57,614,191)	(50,171,919)
Acquisition of other non-current assets	(6,018)				(349,474)	
Changes in scope of consolidation	105,916,775		29,517,071		(1,248,534)	
Cash flows from financing activities	986,238,059	107,730,504	593,658,328	883,303,147	(875,929,545)	(356,940,913)
Proceeds from short-term financial liabilities	24,492,641,246	8,452,148,034	20,651,615,738	8,518,932,436	16,337,988,694	4,852,276,954
Proceeds from long-term financial liabilities	4,062,670,622	2,768,632,800	4,520,814,336	2,824,933,306	1,440,519,418	833,678,600
Disposal of treasury stock			127,520,897	127,520,897		
Issue of hybrid bonds in subsidiaries			224,272,850			
Capital contribution from non-controlling interests	106,683,433		146,388,389		53,875,843	
Repayment of short-term financial liabilities	(27,583,833,012)	(11,419,060,981)	(24,491,368,105)	(10,177,083,492)	(18,445,379,021)	(5,863,296,467)
Repayment of long-term financial liabilities	(399,299,658)	(1,469)	(556,399,241)	(390,000,000)	(190,347,788)	(158,600,000)
Issue of hybrid bonds	428,589,000	428,589,000				
Interest of hybrid bonds paid			(21,000,000)	(21,000,000)	(21,000,000)	(21,000,000)
Dividends paid	(117,264,016)	(122,576,880)				
Dividends and distribution to non-controlling interests	(3,949,556)		(8,186,536)		(51,586,691)	
Net increase(decrease) in cash and cash equivalents before effect of exchange rate changes	1,901,434,633	676,263,233	(127,555,622)	(75,840,430)	1,212,363,740	1,213,693,656
Effects of exchange rate changes on cash and cash equivalents	(8,732,354)	1,006,948	3,543,495	149,513	9,200,872	1,169,396
Net increase(decrease) in cash and cash equivalents	1,892,702,279	677,270,181	(124,012,127)	(75,690,917)	1,221,564,612	1,214,863,052
Cash and cash equivalents at January 1	1,336,613,209	730,673,768	3,229,315,488	1,407,943,949	3,105,303,361	1,332,253,032
Cash and cash equivalents at December 31	3,229,315,488	1,407,943,949	3,105,303,361	1,332,253,032	4,326,867,973	2,547,116,084

On the Separate Financial Statements Based on a report originally issued in Korean

The Board of Directors and Stockholders Hyundai Heavy Industries Co., Ltd.:

We have audited the accompanying separate financial statements of Hyundai Heavy Industries Co., Ltd.(the "Company"), which comprise the separate statements of financial position as of December 31, 2016 and 2015, the separate statements of comprehensive income(loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate 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 separate financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on our

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

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

Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the separate financial position of the Company as of December 31, 2016 and 2015 and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Samjong KPMG CEO Kim Kyo-tae



This report is effective as of March 16, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Third Party Assurance Statement

On the Consolidated Financial Statements Based on a report originally issued in Korean

The Board of Directors and Stockholders Hyundai Heavy Industries Co., Ltd.:

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

Management's Responsibility for the 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, 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 audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected

depend on our 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, we consider 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 consolidated financial position of the Group as of December 31, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Korean International Financial Reporting Standards.

Samjong KPMG CEO Kim Kyo-tae



This report is effective as of March 16, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

Independent Assurance Report

To the management of Hyundai Heavy Industries

We have been engaged by Hyundai Heavy Industries (the "Company") to perform an independent assurance engagement in regard to the following aspects of Hyundai Heavy Industries 2017 Integrated Report (the "Report").

Scope and subject matter

The information for the year ended December 31, 2016 (hereinafter, collectively referred to as the "Sustainability information") on which we provide limited assurance consists of:

- The Company's conclusion on meeting the principles of Inclusivity, Materiality and Responsiveness in the AA1000 AccountAbility Principles
- The non-financial information, stated in "GRI (Global Reporting Initiative) G4 Index (the pages 106 through 108)" as subject to an external assurance (the "Sustainability Data") is prepared based on the reporting principles set out on GRI G4 with Core option

We read the other information included in the Report and considered whether it was consistent with the Sustainability Information. We considered the implications for our report in the case that we became aware of any apparent misstatements or material inconsistencies with the Sustainability Information. Our responsibilities do not extend to any other information.

Assurance work performed

We conducted our engagement in accordance with ISAE 3000¹ and AA1000AS²

The term 'moderate assurance' used in AA1000AS (2008) is designed to be consistent with 'limited assurance' as articulated in ISAE 3000. Our assurance is a Type II assurance engagement as defined in the AA1000AS (2008).

Note1. International Standard on Assurance Engagements 3000 - 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by International Auditing and Assurance Standards Board

Note2. AA1000 Assurance Standard(2008), issued by AccountAbility

Our work involved the following activities:

1. Interviews with the personnel responsible for internal reporting and data collection to discuss their approaches to stakeholder inclusivity, materiality and responsiveness
2. Visits to the Company's headquarter in Ulsan and Seoul office to understand the systems and processes in place for managing and reporting the Sustainability Data
3. Review of samples of internal documents relevant to output from the risk assessment process, sustainability-related policies and standards, the sustainability materiality assessment matrix and other documents from stakeholder-engaged activities
4. Evaluating the design and implementation of key processes and controls for managing and reporting the Sustainability Data
5. Limited testing, through inquiry and analytical review procedures, of the preparation and collation of the Sustainability Data

Respective responsibilities of the management of the Company and Samil PricewaterhouseCoopers

The management of the Company is responsible for establishing reporting principles that meet the principles of Inclusivity, Materiality and Responsiveness in the AA1000APS, measuring performance based on the reporting principles, and reporting this performance in the Report.

Our responsibility is to provide a conclusion based on our assurance procedures in accordance with ISAE 3000 and AA1000AS.

This report, including the conclusion, has been prepared for the management of the Company as a body, to assist the management in reporting on the Company's sustainability performance and activities. We do not accept or assume responsibility to anyone other than the management of the Company as a body and the Company for our work on this report save where terms are expressly agreed and with our prior consent in writing.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the

GRI G4 Guidelines Index & ISO 26000



characteristics of the subject matter and the methods used for determining such information. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgments. A limited assurance engagement is less in scope than a reasonable assurance engagement under ISAE 3000. Consequently, the nature, timing and extent of procedures for gathering sufficient, appropriate evidence are deliberately limited relative to a reasonable assurance engagement.

In particular:

- We did not attend any stakeholder-engaged activities. Therefore our conclusion is based on our discussions with the management and the staff of the Company, and our review of sampled documents provided to us by the Company.
- The scope of our work was restricted to 2016 performance only, as set out in the scope and subject matter section above. Information related to the year ended December 31, 2015 and earlier periods have not been subject to assurance by us.

Conclusion

Based on the results of the assurance work performed, our conclusion is as follows

- On the AA1000APS principles

Inclusivity

- The Company has collected concerns and opinion through stakeholder communication channels that include those of Customers, Partners, Stakeholders, Communities and Employees.
- Nothing has come to our attention to suggest that material stakeholder groups were excluded from these channels.

Materiality

- The Company has identified most relevant and significant sustainability issues through process for identifying material issues.
- Nothing has come to our attention to suggest that material issues were omitted in this process.

Responsiveness

- The Company has included in the Report its response to

the material sustainability issues which are defined through process for identifying material issues.

- Nothing has come to our attention to suggest that there were material deficiencies in the issue management system.

- Nothing has come to our attention that causes us to believe that the Sustainability Data for the year ended December 31, 2016 is not fairly stated, in all material respects, in accordance with the Company's internal reporting principles set out on GRI G4 with Core option.

Recommendations

As a result of our work, we have provided the following recommendations to the management.

- We suggest that the Company expand on its management items used in the performance assessment of each division, in response to the need for effective implementation of sustainable management and inducing substantial group-wide improvement on sustainability issues.
- We recommend active disclosure of progress and future plans on meeting the Company's target for key performance indicators by each sustainability management sector, so that the Company's commitment to systematic execution of sustainability management can be acknowledged by external stakeholders.

Samil PricewaterhouseCoopers
Seoul, Korea
Jae Heum Park, Partner

May 12, 2017

General Standard Disclosures in Accordance with 'Core' Option

Index	GRI G4 Guidelines	ISO 26000	Page	Assurance
Strategy and Analysis				
G4-1	Statement from the most senior decision-maker of the organization	4.7, 6.2, 7.4.2	06-07	●
Organization Profile				
G4-3	Name of the organization		08	●
G4-4	Primary brands, products and services		10~11	●
G4-5	Location of the organization's headquarters		08	●
G4-6	Number, name of countries where the organization operates and where are relevant to the sustainability topics		18~19	●
G4-7	Nature of ownership and legal form		14~17	●
G4-8	Markets served(including geographic breakdown, sectors served, and types of customers and beneficiaries)		24~25	●
G4-9	Scale of the organization	6.3.10, 6.4.1-6.4.5, 6.8.5, 7.8	08~09, 18~19	●
G4-10	Total number of employees by employment contract and gender		08	●
G4-11	Percentage of total employees covered by collective bargaining agreements		74, 76	●
G4-12	Organization's supply chain		53, 82~83	●
G4-13	Significant changes during the reporting period		42~43	●
G4-14	Precautionary approach or principle		70	●
G4-15	Economic, environmental and social charters, principles, initiatives to which the organization subscribes		53	●
G4-16	List of memberships of associations(such as industry associations) and national or international advocacy organizations		110	●
Identified Material Aspects and Boundaries				
G4-17	List of entities in the organization's consolidated financial statements or the equivalent documents		Cover, 08	●
G4-18	Process for defining the report content and the aspect boundaries		38~39	●
G4-19	List of material aspects identified in the process for defining report content		38~39	●
G4-20	Aspect boundary for each material aspect within the organization	5.2, 7.3.2-7.3.4	108~109	●
G4-21	Aspect boundary for each material aspect outside the organization		108~109	●
G4-22	Effect of any restatements of information provided in previous reports, and the reasons for such restatements		09, 71~72	●
G4-23	Significant changes from previous reporting periods in the scope and aspect boundaries		38~39	●
Stakeholder Engagement				
G4-24	Stakeholder groups engaged by the organization		36~37	●
G4-25	Identification and selection of stakeholders with whom to engage	5.3	36~37	●
G4-26	Organization's approach to stakeholder engagement		36~39	●
G4-27	Key topics and concerns raised through stakeholder engagement, and how the organization has responded		108	●
Report Profile				
G4-28	Reporting period		Cover	●
G4-29	Date of the most recent previous report		June 2016	●
G4-30	Reporting cycle		Annually	●
G4-31	Contact point for questions regarding the report or its contents	7.5.3, 7.6.2	111	●
G4-32	'In accordance' option the organization has chosen and GRI Content Index for the chosen option		107	●
G4-33	Organization's policy and current practice with regard to seeking external assurance for the report		Cover, 105~106	●
Governance				
G4-34	Governance structure of the organization	6.2, 7.4.3	14~17	●
Ethics and Integrity				
G4-56	Organization's value, principle, standards and norms of behavior	4.4, 6.6.3	12~13, 55~57	●

Specific Standard Disclosure(Core Issues)

Specific Standard Disclosures and Disclosures on Managerial Approach of GRI G4 Aspects related to core issues selected by materiality assessment are included in this report, and audited by independent accreditation agency.

Aspect	Index	GRI G4 Guidelines	ISO 26000	Page	Assurance
Creating value with change and innovation, Developing new technology through R&D(Aspect boundary: customers, shareholders & investors and employees)					
Direct Economic Value	G4-DMA	Disclosure on Management Approach		40	●
	G4-EC1	Direct Economic value generated and distributed	6.8.1-6.8.3, 6.8.7, 6.8.9	10~11	●
Indirect Economic Impacts	G4-DMA	Disclosure on Management Approach		40	●
	G4-EC8	Significant indirect economic impacts, including the extent of impacts	6.3.9, 6.6.6-6.6.7, 6.7.8, 6.8.1-6.8.2, 6.8.5, 6.8.7, 6.8.9	42~43	●
Quality management for customer satisfaction(Aspect boundary: customers and partners)					
Product and Service Labeling	G4-DMA	Disclosure of Management Approach		40	●
	G4-PR4	Number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling	4.6, 6.7.1-6.7.5, 6.7.9	Not occurred	●
Compliance management and business ethics(Aspect boundary: partners, Industries and employees)					
Anti-Corruption	G4-DMA	Disclosure of Management Approach		50	●
	G4-SO3	Number and percentage of operations assessed for risk related to corruption and the significant risks identified	6.6.1-6.6.3	52~59	●
	G4-SO4	Communication and training on anti-corruption policies and procedures	6.6.1-6.6.3, 6.6.6	52~59	●
Compliance	G4-DMA	Disclosure of Management Approach		50	●
	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	4.6	Not occurred	●
Creating safe workplace and enhancing safety awareness(Aspect boundary: employees and partners)					
Occupational Health and Safety	G4-DMA	Disclosure of Management Approach		62	●
	G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees	6.4.6	64	●
	G4-LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and gender	6.4.6, 6.8.8	62, 65	●
	G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	6.4.6, 6.8.8	64~65, 68~69	●
	G4-LA8	Health and safety topics covered in formal agreements with trade unions	6.4.6	64	●
Promoting employment stability and cooperative industrial relations culture(Aspect boundary: employees)					
Labor/ Management Relations	G4-DMA	Disclosure of Management Approach		74	●
	G4-LA3	Return to work and retention rates after parental leave, by gender	6.4.4	81	●
	G4-LA4	Minimum notice periods regarding operational changes - In accordance with collective agreements, significant operational changes must be notified to the labor union, although the period may differ per case.	6.4.3, 6.4.5	76~77	●
Freedom of Association and Collective Bargaining	G4-DMA	Disclosure of Management Approach		74	●
	G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining maybe violated or at significant risk, and measures taken to support these right	6.3.3-6.3.5, 6.3.8, 6.3.10, 6.4.5, 6.6.6	76~77	●

Specific Standard Disclosure(Other Issues)

This report also provides specific standard disclosure and information which are considered to have a strong correlation with HHI's integrated value creation.

Aspect	Index	Contents	ISO 26000	Page	Assurance
Economy					
Economic Performance	G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	6.5.5	70	●
	G4-EC3	Coverage of the organization's defined benefit plan obligations	6.8.7	81	●
Indirect Economy Effects	G4-EC7	Development and impact of infrastructure Investments services supported	6.3.9, 6.8.1-6.8.2, 6.8.5, 6.8.7, 6.8.9	89~93	●
Environment					
Energy	G4-En3	Energy consumption within the organization	6.5.4	70	●
	G4-En6	Reduction of energy consumption	6.5.4-5	71	●
	G4-En7	Reductions in energy requirements in products and services	6.5.4-5	70	●
Emissions	G4-En15	Direct greenhouse gas(GHG) emissions(Scope 1)	6.5.5	70	●
	G4-En16	Energy indirect greenhouse gas(GHG) emissions(Scope 2)	6.5.5	70	●
	G4-En19	Reduction of greenhouse gas(GHG) emissions	6.5.5	70~71	●
	G4-En21	NOx, SOx, and other significant air emissions	6.5.3	71	●
Effluents and Waste	G4-En22	Total water discharge by quality and destination	6.5.3-6.5.4	72	●
	G4-En23	Total weight of waste by type and disposal method	6.5.3	72	●
	G4-En24	Total number and volume of significant spills	6.5.3	Not occurred	●
Products and Services	G4-En27	Extent of impact mitigation of environmental impacts of products and services	6.5.3-6.5.5, 6.7.5	70	●
Social					
Labor Practices and Decent Work					
Employment	G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	6.4.4, 6.8.7	81	●
	Training and Education	G4-LA9	Average hours of training per year per employee	6.4.7	78~79
G4-LA10		Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	6.4.7, 6.8.5	78~79	●
G4-LA11		Percentage of the employees receiving regular performance and career development reviews	6.4.7	80	●
Diversity and Equal Opportunity	G4-LA12	Composition of governance bodies and breakdown of employees per employee category	6.2.3, 6.3.7, 6.3.10, 6.4.3	08~09	●
Equal Remuneration	G4-LA13	Ratio of basic salary and remuneration of women to men	6.3.7, 6.3.10, 6.4.3-6.4.4	80	●
Human Rights					
Child Labor	G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor	6.3.3-6.3.5, 6.3.7, 6.3.10, 6.6.6, 6.8.4	Not occurred	●
Forced or Compulsory Labor	G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor	6.3.3-6.3.5, 6.3.10, 6.6.6	Not occurred	●
Indigenous Rights	G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	6.3.4, 6.3.6-6.3.8, 6.6.7, 6.8.3	Not occurred	●
Society					
Local Communities	G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	6.3.9, 6.5.1-6.5.3, 6.8	84~88	●
Public Policy	G4-SO6	Total value of political contributions	6.6.1-6.6.2, 6.6.4	N/A	●
Product Responsibility					
Customer Health and Safety	G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle	4.6, 6.7.1-6.7.2-6.7.4-6.7.5, 6.8.8	Not occurred	●
Marketing Communication	G4-PR6	Sale of banned or disputed products	-	N/A	●
	G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications	4.6, 6.7.1-6.7.3	Not occurred	●
Customer Privacy	G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	6.7.1-6.7.2, 6.7.7	Not occurred	●
Compliance	G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	4.6, 6.7.1-6.7.2, 6.7.6	Not occurred	●

Membership Status

Division	Name of Association
Shipbuilding	Korea Offshore & Shipbuilding Association
	Korea Defense Industry Association
	Korea Association for Radiation Application
	The Society of Naval Architects of Korea
	Society of Computational Design and Engineering
	International Towing Tank Conference(ITT)
	Korea Towing Tank Conference
	The Korean Society for Nondestructive Testing
	Royal Institution of Naval Architects
	Korea LNG Bunkering Association
Offshore & Industrial Plant	International Contractors Association of Korea
	Korea Specialty Contractors Association(Ulsan)
	The Korean Society of Ocean Engineers
	Korea Plant Industries Association
	Korea Project Management Association
	Construction Association of Korea
	Korea Construction Engineers Association
	Korea Association for Space Technology Promotion
	The Korean Society of Mechanical Engineers
	Korea Federation of Combustion Engines(KOFCE)
Engine & Machinery	Korea Marine Equipment Association
	Korea Association of Ballast Water Management System
	Korea Machine Tool Manufactures' Association (KOMMA)
Robotics	Korea Association of Robot Industry
	Institute of Control, Robotics, and System(ICROS)

Division	Name of Association
Electro Electric Systems	Korea Electric Association
	Korea Electrical Manufacturers Association
	Korea Smart Grid Association
	Conseil International des Grands Reseaux Electriques (CIGRE)
	Korea Electrical Contractors Association
	SNU Electric Power Research Institute
	Korea Electric Engineers Association
	The Korean Institute of Electrical Engineers (Gyeongnam)
	Korea Power Exchange(KPX)
	Institute of Technology Information Exchange (Doble membership)
Green Energy	Korea Photovoltaic Industry Association
	Korea New & Renewable Energy Association
	The PV CYCLE Association
Construction Equipment	Korea Construction Equipment Manufacturers Association
Corporate Research Center	The Korea Invention Promotion Association
	Korea Intellectual Property Association(KINPA)
	Korea Industrial Technology Association(KOITA)
	KOITA Exchange Meeting of Technology Management Heads
	Korea Electric Engineers Association
	The Korean Welding and Joining Society
Korean Institute of Industrial Engineers	
The Korean Institute of Metal and Materials	

Contributing Departments

(As of December 31, 2016)

Hyundai Heavy Industries	Offshore & Industrial Plant Division	Plant Equipment Department	
	Engine & Machinery Division	Marine Engine & Machinery Sales Department	
	Electro Electric Systems Division	Marketing Strategy & Promotion Department	
	Construction Equipment Division	Marketing Department	
	Assistance & Administration Headquarters		Procurement Planning Department
			Technical Education Institute
			Industrial Relations Department
			Compensation and Benefits Department
			Human Resources Development Department
		Human Resources Development Institute	
	Finance Department		
	General Affairs Department		
	Hyundai Arts Center		
Safety Management Office		Safety Management Department	
		Environment Management Department	
Corporate Research Center		Technology Administration Department	
Group Ship / Offshore Marketing Division		Market Research & Planning Department	
		Offshore Marketing Department	
Legal Affairs Office		Business Ethics Team	
		Compliance Team	
Corporate Planning Office		Human Resources Team	
		Quality Planning Team	
Hyundai Global Service		Marine Service Department	
HHI Green Energy		Financial Management Department	
Hyundai Oilbank		Business Management Team	
HI Investment & Securities		PR Team	
HI Asset Management		PR Team	

For more information

HHI Contacts

Please contact our Corporate Affairs Team with any questions and comments about the 2017 Hyundai Heavy Industries Integrated Report.

HHI Corporate Affairs Team

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