

# 2010 Hyosung Financial Statements



# Report of independent auditors

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

We have audited the accompanying consolidated statements of financial position of Hyosung Corporation and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, expressed in Korean won. These consolidated financial statements are the responsibility of the

Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Nautilus Hyosung Inc. and certain other consolidated subsidiaries, whose financial statements represent 32.29% and 26.53% of the Company's consolidated total assets, before elimination of intercompany transactions, as of December 31, 2010 and 2009, respectively, and 17.59% and 13.28% of the Company's consolidated total sales, before elimination of intercompany transactions, for the respective years then ended. These statements were audited by other auditors whose reports have been furnished us and our opinion, insofar as it relates to the amounts included for Nautilus Hyosung Inc. and certain other consolidated subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hyosung Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations, the changes in its shareholders' equity and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea.

Accounting principles and auditing standards and their application in practice vary among countries.

The accompanying consolidated financial statements are not intended to present the financial position, results of operations, changes in shareholders' equity and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea  
March 30, 2011



This report is effective as of March 30, 2011, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

# Hyosung corporation

## Non-consolidated statements of financial position

Years ended December 31, 2010 and 2009

(In millions of Korean won, except per share amounts)

| <b>Assets</b>                            | <b>2010</b>      | <b>2009</b>      |
|--|------------------|------------------|
| Current assets                           |                  |                  |
| Cash and cash equivalents                | 245,401          | 30,919           |
| Short-term financial instruments         | 269              | 37,000           |
| Short-term loans receivable              | 8,494            | 13,293           |
| Short-term available-for-sale securities | 265              | 4,365            |
| Trade accounts receivable, net           | 602,792          | 637,849          |
| Other accounts receivable, net           | 39,263           | 32,075           |
| Accrued income                           | 1,244            | 2,544            |
| Advance payments                         | 79,584           | 189,944          |
| Prepaid expenses                         | 11,312           | 8,582            |
| Derivatives                              | 18,912           | 16,949           |
| Current deferred income tax assets       | 18,576           | 21,976           |
| Inventories, net                         | 801,996          | 470,877          |
| <b>Total current assets</b>              | <b>1,828,108</b> | <b>1,466,373</b> |
| Long-term financial instruments          | 50               | 318              |
| Available-for-sale securities            | 126,225          | 106,285          |
| Equity-method investments                | 1,568,589        | 1,485,472        |
| Long-term loans receivable               | 6,822            | 4,500            |
| Investments in development               | 903              | 925              |
| Property, plant and equipment, net       | 3,060,132        | 3,081,417        |
| Intangible assets, net                   | 9,915            | 9,828            |
| Others                                   | 222,326          | 88,825           |
| <b>Total assets</b>                      | <b>6,823,070</b> | <b>6,243,943</b> |

# Hyosung corporation

## Non-consolidated statements of financial position

Years ended December 31, 2010 and 2009  
(In millions of Korean won, except per share amounts)

| Liabilities and Shareholders' Equity                 | 2010             | 2009             |
|--|------------------|------------------|
| Current liabilities                                  |                  |                  |
| Trade accounts payable                               | 977,835          | 697,236          |
| Short-term borrowings                                | 375,109          | 347,130          |
| Current portion of long-term borrowings              | 502,290          | 646,112          |
| Other accounts payable                               | 208,331          | 171,391          |
| Income taxes payable                                 | 78,187           | 17,652           |
| Accrued expenses                                     | 25,845           | 36,449           |
| Advance from customers                               | 111,668          | 140,773          |
| Withholdings   | 27,024           | 24,018           |
| Deposits received                                    | 22,532           | 22,326           |
| Derivatives payable                                  | 7,290            | 13,521           |
| <b>Total current liabilities</b>                     | <b>2,336,111</b> | <b>2,116,608</b> |
| Debentures, net                                      | 676,951          | 698,137          |
| Long-term borrowings                                 | 403,067          | 262,579          |
| Long-term other accounts payable                     | 10,116           | 9,971            |
| Long-term guarantee deposits received                | 25,032           | 25,032           |
| Accrued severance benefits, net                      | 35,368           | 45,396           |
| Provision for construction warranties                | 8,486            | 9,037            |
| Reserve for loss from equity-method investments      | 77,670           | 76,634           |
| Provision for construction losses                    | 18,299           | 11,573           |
| Deferred income tax liabilities                      | 265,163          | 251,642          |
| <b>Total liabilities</b>                             | <b>3,856,263</b> | <b>3,506,609</b> |
| Shareholders' equity                                 |                  |                  |
| Capital stock  |                  |                  |
| Common stock   | 175,587          | 175,587          |
| Capital surplus                                      |                  |                  |
| Paid-in capital in excess of par value               | 130,826          | 130,826          |
| Assets revaluation reserve                           | 738,300          | 738,300          |
| Other capital surplus                                | 295,551          | 301,684          |
| Capital adjustments                                  |                  |                  |
| Treasury stock                                       | (34,204)         | (34,204)         |
| Other capital adjustments                            | (1,905)          | (1,727)          |
| Accumulated other comprehensive income and expense   |                  |                  |
| Gain on valuation of available-for-sale securities   | 30,188           | 18,907           |
| Loss on valuation of available-for-sale securities   | (962)            | (1,867)          |
| Change in equity from equity-method                  | 133,155          | 135,689          |
| Translation of foreign currency financial statements | (1,717)          | (1,778)          |
| Loss on valuation of derivatives                     | -                | (6,714)          |
| Surplus from revaluation                             | 666,218          | 674,886          |
| Retained earnings                                    |                  |                  |
| Legal reserve  | 9,965            | 6,638            |
| Discretionary reserve                                | 564,000          | 259,667          |
| Unappropriated retained earnings                     | 261,805          | 341,440          |
| <b>Total shareholders' equity</b>                    | <b>2,966,807</b> | <b>2,737,334</b> |
| <b>Total liabilities and shareholders' equity</b>    | <b>6,823,070</b> | <b>6,243,943</b> |

# Hyosung corporation

## Non-consolidated statements of income

Years ended December 31, 2010 and 2009

(In millions of Korean won, except per share amounts)

|  | 2010             | 2009             |
|--|------------------|------------------|
| Sales  | 8,192,063        | 7,039,730        |
| Cost of sales  | 6,970,250        | 5,886,618        |
| <b>Gross income</b>  | <b>1,221,813</b> | <b>1,153,112</b> |
| Selling and administrative expenses                          | 722,444          | 620,706          |
| <b>Operating income</b>                                      | <b>499,369</b>   | <b>532,406</b>   |
| Non-operating income   |                  |                  |
| Interest income  | 10,004           | 12,017           |
| Dividend income  | 1,534            | 184              |
| Rental income  | 322              | 276              |
| Gain on foreign currency transactions                        | 72,689           | 118,504          |
| Gain on foreign currency translation                         | 64,962           | 66,390           |
| Gain on disposal of investment assets                        | 355              | 238              |
| Gain on disposal of property, plant and equipment            | 14,941           | 5,067            |
| Reversal of impairment loss on available-for-sale-securities | -                | 927              |
| Reversal of impairment loss on property, plant and equipment | 3,548            | -                |
| Reversal of allowance for bad debts                          | 7,452            | -                |
| Gain on valuation of equity-method investments               | 165,653          | 115,571          |
| Gain on derivative transactions                              | 16,445           | 6,391            |
| Gain on valuation of derivatives                             | 17,948           | 16,949           |
| Others   | 35,565           | 34,013           |
|  | <b>411,418</b>   | <b>376,527</b>   |
| Non-operating expenses                                       |                  |                  |
| Interest expenses  | 111,933          | 136,040          |
| Loss on disposal of trade accounts receivable                | 2,750            | 2,438            |
| Loss on foreign currency transactions                        | 81,670           | 110,807          |
| Loss on foreign currency translation                         | 56,245           | 33,888           |
| Loss on disposal of investment assets                        | -                | 1,212            |
| Loss on valuation of investment assets                       | 113              | 6,510            |
| Loss on disposal of property, plant and equipment            | 5,744            | 410              |
| Impairment loss on property, plant and equipment             | 4,356            | 9,868            |
| Donations  | 3,276            | 2,587            |
| Commissions  | 24,941           | 38,316           |
| Sales promotion  | 68               | 106              |
| Loss on valuation of equity-method investments               | 167,878          | 77,622           |
| Contribution to reserve for loss from equity-method          | 1,075            | 3,956            |
| Bad debts expense for other accounts receivable              | 17,223           | 7,716            |
| Loss on derivative transactions                              | 6,113            | 21,469           |
| Loss on valuation of derivatives                             | 5,233            | 2,170            |
| Others   | 19,945           | 12,127           |
|  | <b>508,563</b>   | <b>467,242</b>   |
| <b>Income before income taxes</b>                            | <b>402,224</b>   | <b>441,691</b>   |
| Income tax expense   | 130,892          | 102,772          |
| <b>Net income</b>  | <b>271,332</b>   | <b>338,919</b>   |
| Basic earnings per share                                     | 8,156            | 10,187           |
| Diluted earnings per share                                   | 8,156            | 10,187           |

# Hyosung corporation

## Non-consolidated statements of Cash flows

Years ended December 31, 2010 and 2009  
(In millions of Korean won, except per share amounts)

|  | 2010           | 2009           |
|--|----------------|----------------|
| <b>Cash flows from operating activities</b>                                      |                |                |
| Net income   | <b>271,332</b> | 338,919        |
| Adjustments to reconcile net income to net cash provided by operating activities |                |                |
| Provision for severance benefits   | 45,104         | 35,123         |
| Depreciation   | 179,365        | 182,341        |
| Amortization   | 1,366          | 1,650          |
| Bad debts expense  | 12,601         | 22,893         |
| Loss on disposal of trade accounts receivable                                    | 2,750          | 2,438          |
| Loss on foreign currency translation   | 56,245         | 33,888         |
| Loss on disposal of investment assets  | -              | 1,212          |
| Impairment loss on investment assets   | 113            | 6,510          |
| Loss on disposal of property, plant and equipment                                | 5,744          | 410            |
| Impairment loss on property, plant and equipment                                 | 4,356          | 9,868          |
| Shrinkage loss on property, plant and equipment                                  | 635            | 907            |
| Loss on valuation of equity-method investments                                   | 167,878        | 77,622         |
| Contribution to reserve for loss from equity-method                              | 1,075          | 3,956          |
| Bad debts expense for other accounts receivable                                  | 17,223         | 7,716          |
| Loss on valuation of derivatives   | 5,233          | 2,170          |
| Amortization of discounts on issuance of debentures                              | 1,264          | 1,350          |
| Amortization of investments in development                                       | 22             | 49             |
| Warranty expense for construction  | 1,161          | 1,688          |
| Contribution to provision for construction losses                                | 6,726          | 11,573         |
| Gain on foreign currency translation   | (64,962)       | (66,390)       |
| Reversal of allowance for bad debts  | (7,452)        | -              |
| Gain on disposal of investment assets  | (355)          | (238)          |
| Gain on disposal of property, plant and equipment                                | (14,941)       | (5,068)        |
| Reversal of impairment loss on property, plant and equipment                     | (3,548)        | -              |
| Reversal of impairment loss on investment assets                                 | -              | (927)          |
| Gain on valuation of equity-method investments                                   | (165,653)      | (115,571)      |
| Gain on valuation of derivatives   | (17,948)       | (16,949)       |
|  | <b>234,002</b> | 198,221        |
| Changes in operating assets and liabilities                                      |                |                |
| Increase in trade accounts receivable  | (58,846)       | (132,099)      |
| Decrease(increase) in other accounts receivable                                  | (9,526)        | 7,114          |
| Increase in accrued income   | 1,295          | (286)          |
| Increase in advance payments   | 105,603        | (106,157)      |
| Increase in prepaid expenses   | (2,730)        | (2,074)        |
| Decrease in derivatives  | 15,681         | 3,614          |
| Decrease(increase) in current deferred income tax assets                         | 3,400          | 72,756         |
| Decrease(increase) in inventories  | (331,118)      | 37,973         |
| Increase in trade accounts payable   | 286,389        | 58,197         |
| Increase in other accounts payable   | 38,474         | 13,022         |
| Increase in advance from customers   | (27,869)       | 38,307         |
| Increase in withholdings   | 3,151          | 6,719          |
| Increase in accrued expenses   | (10,589)       | 4,214          |
| Increase in deposits received  | 206            | 2,935          |
| Increase(decrease) in income taxes payable                                       | 60,535         | 17,514         |
| Decrease in derivatives payable  | (11,464)       | (40,161)       |
| Payment of severance benefits  | (75,089)       | (19,680)       |
| Severance benefits transferred   | 417            | 139            |
| Increase in severance insurance deposits   | 19,064         | (14,321)       |
| Decrease in contribution to National Pension Fund                                | 476            | 502            |
| Decrease in provision for construction warranties                                | (1,713)        | (1,337)        |
| Decrease (increase) in translation loss of foreign currency financial statements | 61             | (798)          |
| Increase in non-current deferred income tax liabilities                          | 13,064         | 857            |
|  | 18,872         | (53,050)       |
| <b>Net cash provided by operating activities</b>                                 | <b>524,206</b> | <b>484,090</b> |

# Hyosung corporation

## Non-consolidated statements of cash flows

Years ended December 31, 2010 and 2009

(In millions of Korean won, except per share amounts)

|   | 2010             | 2009             |
|---|------------------|------------------|
| <b>Cash flows from investing activities</b>                 |                  |                  |
| Decrease in short-term finance instruments                  | 37,000           | -                |
| Decrease in short-term loans receivable                     | -                | 7,915            |
| Proceeds from disposal of available-for-sale securities     | 4,801            | 5,716            |
| Proceeds from disposal of equity-method investments         | 101,024          | 12,678           |
| Decrease in long-term loans receivable                      | 1,243            | 657              |
| Proceeds from disposal of property and equipment            | 39,795           | 10,845           |
| Proceeds from disposal of industrial property               | 25               | -                |
| Decrease in guarantee deposits                              | 27,126           | 37,799           |
| Proceeds from disposal of other investment assets           | 8,805            | 1,567            |
| Increase in short-term financial instruments                | -                | (37,000)         |
| Increase in short-term loans receivable                     | (7,926)          | (4,822)          |
| Increase in long-term financial instruments                 | -                | (269)            |
| Acquisition of available-for-sale securities                | (4,240)          | (2,818)          |
| Acquisition of equity-method investments                    | (207,830)        | (65,394)         |
| Increase in long-term loans receivable                      | (3,973)          | (9,819)          |
| Acquisition of property and equipment                       | (200,081)        | (307,284)        |
| Acquisition of industrial property                          | (1,233)          | (1,793)          |
| Acquisition of other intangible assets                      | (221)            | -                |
| Increase in guarantee deposits                              | (80,916)         | (45,340)         |
| Increase in other investment assets                         | (4,488)          | -                |
| <b>Net cash used in investing activities</b>                | <b>(291,089)</b> | <b>(397,362)</b> |
| <b>Cash flows from financing activities</b>                 |                  |                  |
| Proceeds from short-term borrowings                         | 3,510,148        | 2,743,814        |
| Proceeds from issuance of debentures                        | 347,550          | 358,927          |
| Proceeds from long-term borrowings                          | 282,390          | 63,739           |
| Repayment of short-term borrowings                          | (3,477,950)      | (2,930,046)      |
| Payment of cash dividends                                   | (33,268)         | (24,951)         |
| Repayment of current portion of long-term loans             | (647,505)        | (382,842)        |
| Repayment of debentures                                     | -                | -                |
| Repayment of long-term borrowings                           | -                | (30,000)         |
| <b>Net cash used in (provided by) financing activities</b>  | <b>(18,635)</b>  | <b>(201,359)</b> |
| <b>Net decrease (increase) in cash and cash equivalents</b> | <b>214,482</b>   | <b>(114,631)</b> |
| <b>Cash and cash equivalents</b>                            |                  |                  |
| Beginning of the year                                       | 30,919           | 145,550          |
| End of the year   | <b>245,401</b>   | <b>30,919</b>    |



# Hyosung corporation and subsidiaries

## Consolidated statements of financial position

Years ended December 31, 2010 and 2009  
(In millions of Korean won, except per share amounts)

| Assets                                   | 2010              | 2009              |
|--|-------------------|-------------------|
| Current assets                           |                   |                   |
| Cash and cash equivalents                | 661,554           | 448,494           |
| Short-term financial instruments         | 27,963            | 56,479            |
| Short-term loans receivable              | 270,311           | 233,328           |
| Short-term available-for-sale securities | 265               | 4,365             |
| Trade accounts receivable, net           | 1,616,444         | 1,646,969         |
| Other accounts receivable, net           | 137,217           | 104,162           |
| Accrued income                           | 30,360            | 24,948            |
| Advance payments                         | 147,412           | 239,524           |
| Prepaid expenses                         | 32,242            | 28,421            |
| Derivatives                              | 19,472            | 16,977            |
| Current deferred income tax assets       | 20,313            | 24,347            |
| Other current assets                     | 31,329            | 18,506            |
| Inventories, net                         | 1,489,520         | 1,070,290         |
| <b>Total current assets</b>              | <b>4,484,402</b>  | <b>3,916,810</b>  |
| Long-term financial instruments          | 79,888            | 76,689            |
| Available-for-sale securities            | 219,593           | 179,491           |
| Held-to-maturity securities              | 4,945             | 5,237             |
| Equity-method investments                | 114,402           | 99,571            |
| Long-term loans receivable               | 7,457             | 4,824             |
| Investments in development               | 903               | 925               |
| Property, plant and equipment, net       | 4,652,862         | 4,381,133         |
| Intangible assets, net                   | 104,616           | 137,126           |
| Guarantee deposits                       | 193,795           | 129,298           |
| Deferred tax assets                      | 10,952            | 10,507            |
| Other non-current assets                 | 45,256            | 56,246            |
| Other financial business assets          | 1,780,817         | 1,283,057         |
| <b>Total assets</b>                      | <b>11,699,888</b> | <b>10,280,914</b> |

# Hyosung corporation and subsidiaries

## Consolidated statements of financial position

Years ended December 31, 2010 and 2009

(In millions of Korean won, except per share amounts)

| Liabilities and Shareholders' Equity                 | 2010              | 2009              |
|--|-------------------|-------------------|
| Current liabilities                                  |                   |                   |
| Trade accounts payable                               | 1,745,961         | 1,366,189         |
| Short-term borrowings                                | 1,404,920         | 1,613,430         |
| Other accounts payable                               | 258,705           | 266,781           |
| Advance from customers                               | 250,028           | 276,821           |
| Withholdings   | 64,099            | 65,382            |
| Accrued expenses                                     | 70,179            | 81,921            |
| Current portion of long-term borrowings              | 1,397,145         | 1,123,607         |
| Deposits received                                    | 293,449           | 162,779           |
| Income taxes payable                                 | 111,440           | 30,365            |
| Derivatives payable                                  | 7,991             | 15,199            |
| Current deferred tax liabilities                     | 32                | 12                |
| Other current liabilities                            | 11,937            | 8,056             |
| <b>Total current liabilities</b>                     | <b>5,615,886</b>  | 5,010,542         |
| Debentures, net                                      | 1,314,508         | 1,021,922         |
| Long-term borrowings, net                            | 1,122,191         | 812,197           |
| Long-term other accounts payable                     | 10,479            | 10,938            |
| Long-term guarantee deposits received                | 26,658            | 26,362            |
| Accrued severance benefits, net                      | 51,490            | 61,515            |
| Provision for construction warranties                | 35,361            | 26,164            |
| Provision for construction losses                    | 19,963            | 15,442            |
| Deferred tax liabilities                             | 268,129           | 252,871           |
| Other non-current liabilities                        | 8,481             | 3,073             |
| <b>Total liabilities</b>                             | <b>8,473,146</b>  | 7,241,026         |
| Shareholder's equity                                 |                   |                   |
| Capital Stock  |                   |                   |
| Common stock   | 175,587           | 175,587           |
| Capital surplus                                      | 1,164,677         | 1,169,217         |
| Capital adjustments                                  |                   |                   |
| Treasury stock                                       | (34,204)          | (34,204)          |
| Other capital adjustments                            | (1,905)           | (1,726)           |
| Accumulated other comprehensive income and expense   |                   |                   |
| Gain on valuation of available-for-sale securities   | 38,122            | 26,539            |
| Loss on valuation of available-for-sale securities   | (962)             | (1,175)           |
| Loss on valuation of derivatives                     | (576)             | (7,327)           |
| Change in equity from equity-method                  | 16,104            | 18,186            |
| Surplus from revaluation                             | 666,218           | 674,886           |
| Translation of foreign currency financial statements | 118,801           | 104,611           |
| Retained earnings                                    | 832,508           | 593,318           |
| Controlling interest in consolidated company         | 2,974,370         | 2,717,912         |
| Minority interest in consolidated subsidiaries       | 252,372           | 321,976           |
| <b>Total shareholders' equity</b>                    | <b>3,226,742</b>  | 3,039,888         |
| <b>Total liabilities and shareholders' equity</b>    | <b>11,699,888</b> | <b>10,280,914</b> |

# Hyosung corporation and subsidiaries

## Consolidated statements of income

Years ended December 31, 2010 and 2009  
(In millions of Korean won, except per share amounts)

|   | 2010             | 2009             |
|---|------------------|------------------|
| Sales   | 11,591,481       | 10,009,193       |
| Cost of sales                                     | 9,993,888        | 8,343,011        |
| <b>Gross profit</b>                               | <b>1,597,593</b> | <b>1,666,182</b> |
| Selling and administrative expenses               | 968,487          | 1,032,345        |
| <b>Operating income</b>                           | <b>629,106</b>   | <b>633,837</b>   |
| Non-operating income                              |                  |                  |
| Interest income                                   | 28,764           | 32,573           |
| Dividend income                                   | 1,649            | 300              |
| Rental income                                     | 424              | 940              |
| Gain on foreign currency transactions             | 107,993          | 133,566          |
| Gain on foreign currency translation              | 71,149           | 74,086           |
| Gain on valuation of equity-method investments    | 30,673           | 9,217            |
| Gain on disposal of investment assets             | 13,155           | 1,419            |
| Gain on disposal of property, plant and equipment | 14,551           | 5,710            |
| Gain on derivative transactions                   | 19,524           | 15,946           |
| Gain on valuation of derivatives                  | 18,409           | 16,977           |
| Reversal of loss on investment assets             | -                | 927              |
| Reversal of loss on property, plant and equipment | 3,548            | -                |
| Reversal of allowance for doubtful accounts       | 87               | -                |
| Amortization of negative goodwill                 | 823              | 1,568            |
| Others  | 43,447           | 59,907           |
|   | <b>354,196</b>   | <b>353,136</b>   |
| Non-operating expenses                            |                  |                  |
| Interest expenses                                 | 193,303          | 220,520          |
| Loss on disposal of trade accounts receivable     | 2,831            | 2,935            |
| Loss on valuation of inventories                  | 275              | 150              |
| Loss on foreign currency transactions             | 110,385          | 127,203          |
| Loss on foreign currency translation              | 99,147           | 52,955           |
| Loss on disposal of investment assets             | 5,663            | 22,783           |
| Loss on valuation of investment assets            | 298              | 6,510            |
| Loss on disposal of property, plant and equipment | 8,306            | 2,563            |
| Impairment of property, plant and equipment       | 4,356            | 9,868            |
| Donations   | 3,727            | 2,807            |
| Commissions                                       | 28,824           | 38,299           |
| Sales promotion                                   | 68               | 106              |
| Loss on valuation of equity-method investments    | 2,465            | 2,305            |
| Bad debts expense for other accounts receivable   | 101,329          | 55,519           |
| Loss on derivative transactions                   | 6,782            | 22,217           |
| Loss on valuation of derivatives                  | 5,355            | 3,125            |
| Loss on retirement of bonds                       | -                | 214              |
| Others  | 43,724           | 55,264           |
|   | <b>616,838</b>   | <b>625,343</b>   |
| <b>Income before income tax</b>                   | <b>366,464</b>   | <b>361,630</b>   |
| Income tax expense                                | 174,620          | 122,881          |
| <b>Net income</b>                                 | <b>191,844</b>   | <b>238,749</b>   |
| Parent interest in net income                     | 266,448          | 323,430          |
| Minority interest in net income                   | (74,604)         | (84,681)         |
| Basic earnings per share                          | 8,009            | 9,722            |
| Diluted earnings per share                        | 8,009            | 9,722            |

# Hyosung corporation and subsidiaries

## Consolidated statements of cash flows

Years ended December 31, 2010 and 2009

(In millions of Korean won, except per share amounts)

|  | 2010             | 2009             |
|--|------------------|------------------|
| <b>Cash flows from operating activities</b>                                      |                  |                  |
| Net Income   | 191,844          | 238,749          |
| Adjustments to reconcile net income to net cash provided by operating activities |                  |                  |
| Provision for severance benefits   | 57,573           | 46,122           |
| Depreciation   | 381,958          | 343,858          |
| Amortization   | 53,030           | 47,542           |
| Bad debts expense  | 95,402           | 50,142           |
| Loss on disposal of trade accounts receivable                                    | 2,831            | 2,935            |
| Loss on foreign currency translation   | 98,686           | 52,955           |
| Loss on valuation of inventories   | 275              | 150              |
| Loss on disposal of investment assets  | 5,663            | 22,782           |
| Impairment loss on investment assets   | 298              | 6,510            |
| Loss on disposal of property, plant and equipment                                | 8,306            | 2,563            |
| Impairment loss on property, plant and equipment                                 | 4,356            | 9,868            |
| Loss on valuation of equity-method investments                                   | 2,465            | 2,305            |
| Bad debts expense for other accounts receivable                                  | 101,329          | 55,519           |
| Loss on valuation of derivatives   | 5,355            | 3,125            |
| Amortization of discounts on issuance of debentures                              | 2,151            | 4,611            |
| Loss on retirement of bonds  | -                | 214              |
| Contribution to provision for construction losses                                | 4,521            | 15,442           |
| Amortization of investments in development                                       | 22               | 49               |
| Warranty expense for construction  | 14,139           | 12,054           |
| Gain on foreign currency translation   | (71,129)         | (74,086)         |
| Gain on disposal of investment assets  | (13,155)         | (1,419)          |
| Gain on disposal of property, plant and equipment                                | (14,551)         | (5,710)          |
| Reversal of impairment loss on property, plant and equipment                     | (3,548)          | -                |
| Reversal of impairment loss on investment assets                                 | -                | (927)            |
| Gain on valuation of equity-method investments                                   | (30,673)         | (9,217)          |
| Reversal of allowance for doubtful accounts                                      | (87)             | -                |
| Amortization of negative goodwill  | (823)            | (1,568)          |
| Gain on valuation of derivatives   | (18,409)         | (16,977)         |
|  | <b>685,985</b>   | <b>568,842</b>   |
| Changes in operating assets and liabilities                                      |                  |                  |
| Increase in trade accounts receivable  | (69,244)         | (404,722)        |
| Increase (decrease) in other accounts receivable                                 | (33,537)         | 47,957           |
| Increase in accrued income   | (24,540)         | (15,020)         |
| Decrease (increase) in advance payments  | 91,135           | (103,117)        |
| Decrease (increase) in prepaid expenses  | 1,808            | (27,966)         |
| Increase(decrease) in other current assets                                       | (12,642)         | 36,730           |
| Increase(decrease) in inventories  | (402,196)        | 93,890           |
| Decrease in derivatives  | 15,914           | 15,299           |
| Increase(decrease) in other financial business assets                            | (497,759)        | 50,543           |
| Decrease in deferred tax assets  | 3,590            | 76,162           |
| Decrease (increase) in translation of foreign currency financial statements      | 14,189           | (64,633)         |
| Increase in trade accounts payable   | 385,238          | 123,552          |
| Decrease (increase) in other accounts payable                                    | (4,484)          | 41,194           |
| Decrease (increase) in advance from customers                                    | (24,795)         | 25,362           |
| Decrease (increase) in withholdings  | (1,443)          | 12,527           |
| Decrease in accrued expenses   | (11,809)         | (4,723)          |
| Increase in income taxes payable   | 81,066           | 11,847           |
| Increase in deposits received  | 130,963          | 4,160            |
| Increase(decrease) in other current liabilities                                  | 3,881            | (375)            |
| Payment of severance benefits  | (86,794)         | (26,991)         |
| Severance benefits transferred   | 568              | 139              |
| Decrease (increase) in severance benefits deposits                               | 18,773           | (16,577)         |
| Decrease in contribution to National Pension Fund                                | 221              | 533              |
| Decrease in provision for construction warranties                                | (4,942)          | (6,747)          |
| Decrease in derivatives payable  | (12,563)         | (40,332)         |
| Increase(decrease) in deferred tax liabilities                                   | 7,654            | (19,914)         |
| Increase in other non-current liabilities  | 5,344            | 1,438            |
|  | <b>(426,404)</b> | <b>(189,784)</b> |
| <b>Net cash provided by operating activities</b>                                 | <b>451,425</b>   | <b>617,807</b>   |

# Hyosung corporation and subsidiaries

## Consolidated statements of cash flows

Years ended December 31, 2010 and 2009  
(In millions of Korean won, except per share amounts)

|   | 2010             | 2009             |
|---|------------------|------------------|
| <b>Cash flows from investing activities</b>                 |                  |                  |
| Proceeds from disposal of short-term financial instruments  | 236,198          | 164,762          |
| Decrease in short-term loans receivable                     | 35,410           | 156,269          |
| Proceeds from disposal of long-term financial instruments   | 153              | 12,613           |
| Proceeds from disposal of available-for-sale securities     | 18,359           | 7,201            |
| Proceeds from disposal of held-to-maturity securities       | 52               | 7,206            |
| Proceeds from disposal of equity-method investments         | -                | 869              |
| Decrease in long-term loans receivable                      | 4,642            | 686              |
| Proceeds from disposal of property, plant and equipment     | 61,531           | 33,038           |
| Decrease in guarantee deposits                              | 29,473           | 58,413           |
| Proceeds from disposal of other investment assets           | 29,035           | 46,928           |
| Proceeds from disposal of short-term financial instruments  | (206,491)        | (207,657)        |
| Increase in short-term loans receivable                     | (153,034)        | (230,492)        |
| Acquisition of long-term financial instruments              | (239)            | (16,834)         |
| Acquisition of available-for-sale securities                | (21,590)         | (22,153)         |
| Acquisition of held-to-maturity securities                  | (32)             | (8)              |
| Acquisition of equity-method investments                    | (1,185)          | (13,209)         |
| Increase in long-term loans receivable                      | (4,540)          | (9,983)          |
| Acquisition of property, plant and equipment                | (738,387)        | (492,304)        |
| Acquisition of intangible assets                            | (21,518)         | (17,163)         |
| Acquisition of guarantee deposits                           | (96,292)         | (52,965)         |
| Acquisition of other investment assets                      | (46,073)         | -                |
| <b>Net cash used in investing activities</b>                | <b>(874,528)</b> | <b>(574,783)</b> |
| <b>Cash flows from financing activities</b>                 |                  |                  |
| Proceeds from short-term borrowings                         | 6,953,815        | 6,516,480        |
| Proceeds from current portion of long-term borrowings       | 28,000           | 5,000            |
| Proceeds from issuance of debentures                        | 907,435          | 672,866          |
| Proceeds from long-term borrowings                          | 426,775          | 214,805          |
| Proceeds from issuance of common shares                     | 28,903           | 135,124          |
| Repayment of short-term borrowings                          | (6,625,010)      | (6,623,238)      |
| Repayment of current portion of long-term loans             | (699,820)        | (880,034)        |
| Repayment of debentures                                     | (347,000)        | (10,020)         |
| Repayment of long-term borrowings                           | (48,551)         | (172,412)        |
| Payment of cash dividends                                   | (35,162)         | (25,842)         |
| <b>Net cash provided by (used in) financing activities</b>  | <b>589,385</b>   | <b>(167,271)</b> |
| <b>Net increase in cash due to changes in subsidiaries</b>  | <b>46,778</b>    | <b>93,363</b>    |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>213,060</b>   | <b>(30,884)</b>  |
| <b>Cash and cash equivalents</b>                            |                  |                  |
| Beginning of the year                                       | 448,494          | 479,378          |
| End of the year   | <b>661,554</b>   | <b>448,494</b>   |

# Board of directors



**S.R. Cho**  
Chairman of Hyosung Group



**Sang-Woon Lee**  
Vice Chairman



**Hyun-Joon Cho**  
President  
President of Trading PG  
President of Textile PG  
Chief Strategy Officer



**Yoon-Taik Chung**  
President  
Chief Financial Officer



**Christopher Hyun-Moon Cho**  
Executive Vice President  
President of Power & Industrial  
Systems PG



**Ki-Eun Bae**  
Outside Director  
Chairman of Hwajin Industry  
Former President of Tongyang Nylon Co.



**Sang-Hee Kim**  
Outside Director  
Attorneys-at-Law of Kim Sang Hee Law Office  
Vice-Minister, the Ministry of Justice



**Min-Koo Han**  
Outside Director  
Professor of Electrical Engineering,  
Seoul National University



**Young-Won Ha**  
Outside Director  
Professor of Business Administration,  
Sogang University



**Joong-Jin Park**  
Outside Director  
Vice Chairman of Tong Yang Life  
Insurance

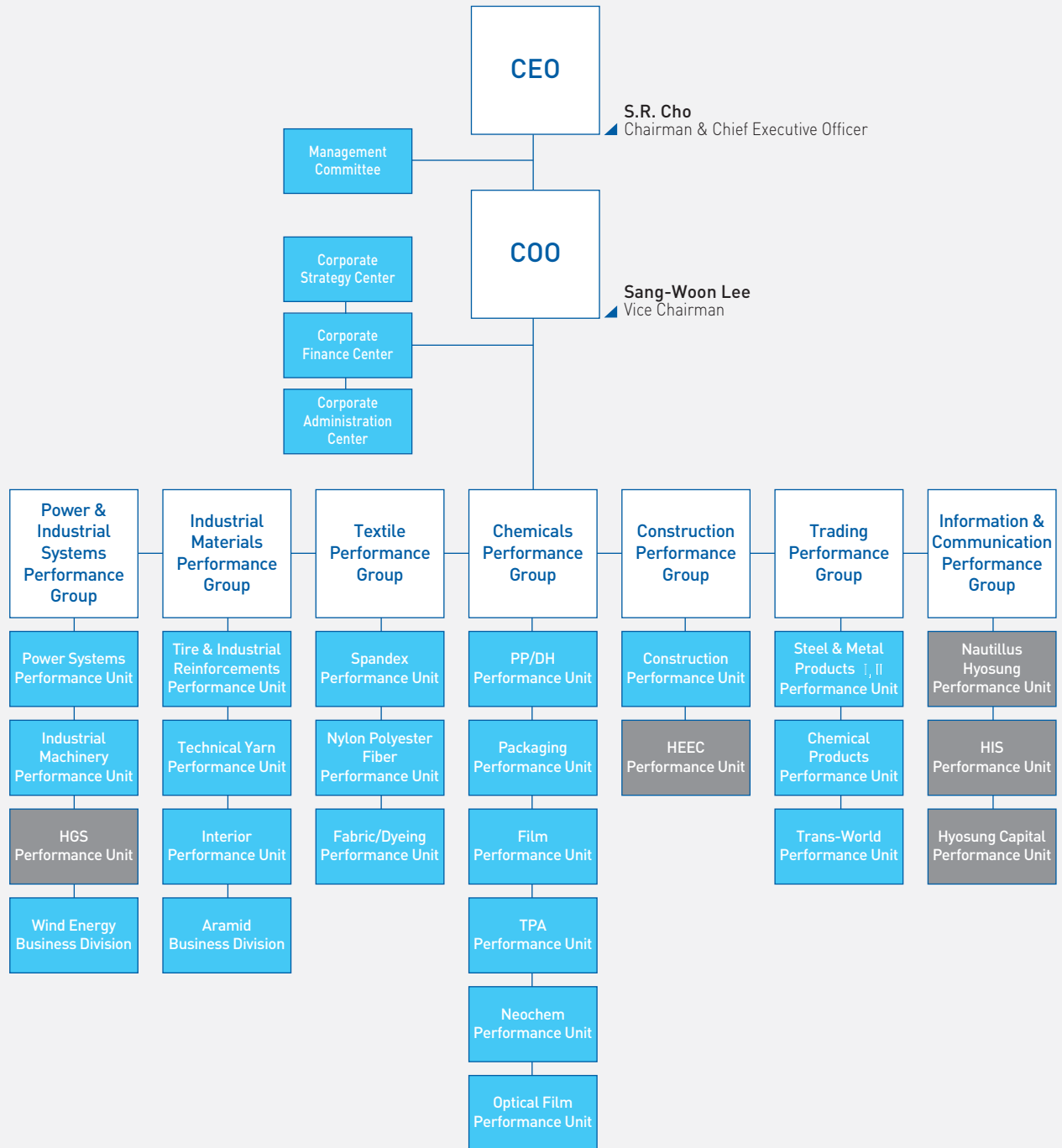


**Jong-Kap Kim**  
Outside Director  
Executive chairman of  
Hynix Semiconductor



**Heung-Sik Choe**  
Outside Director  
President of Hana Institute of Finance

# Corporate management



■ are affiliates of Hyosung.



450, Gongdeok-dong, Mapo-gu, Seoul, Korea  
TEL : +82-2-707-7000 FAX : +82-2-707-7799