

2018

Financial Statements

CREATIVITY INSPIRED

HYOSUNG

Table of Contents

01	Independent Auditor's Report
04	Separate Statements of Financial Position
05	Separate Statements of Profit or Loss
06	Separate Statements of Comprehensive Income
07	Separate Statements of Changes in Equity
08	Separate Statements of Cash Flows
09	Independent Auditor's Report
12	Consolidated Statements of Financial Position
13	Consolidated Statements of Profit or Loss
14	Consolidated Statements of Comprehensive Income
15	Consolidated Statements of Changes in Equity
16	Consolidated Statements of Cash Flows

Independent Auditor's Report

To the Board of Directors and Shareholders of Hyosung Corporation

Opinion

We have audited the separate financial statements of Hyosung Corporation (the "Company"), which comprise the separate statement of financial position as at December 31, 2018, and separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2018 and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

Basis for Opinion

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the separate financial statements in Korea, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

The reader of this report may need to draw attention to the matters explained in Note 40 to the separate financial statements. As a result of the spin-off dated on June 1, 2018, the Company was separated into the surviving company; Hyosung Corporation that manages the equities and investments of the subsidiaries, and newly established companies; Hyosung TNC Corporation, Hyosung Heavy Industries, Hyosung Advanced Materials and Hyosung Chemical Corporation that operate business in textile and trading, heavy industries and construction, industrial materials and chemical products, respectively. Accordingly, the Company presented the performance of the discontinued operation as the separate line item in the separate statements of profit or loss and restated the prior period's separate statement of profit or loss presented herein as comparative purpose.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Accounting for spin-off

As explained in the Note 40 to the separate financial statements, as a result of the spin-off dated on June 1, 2018, the Company was separated into the surviving company Hyosung Corporation and newly established companies Hyosung TNC Corporation, Hyosung Heavy Industries, Hyosung Advanced Materials and Hyosung Chemical Corporation.

In accordance with Korean IFRS 2117, non-cash assets to be distributed to owners ("assets distributed") are measured at fair value and the differences between the carrying amount and fair value of the assets distributed are recognized as a profit or loss of the current period. In accordance with Korean IFRS 1105, the spin-off is required to be disclosed as a discontinued operation.

For the fair value measurement of the assets distributed, critical assumptions and judgments in respect for future cash flow, long-term growth rate, profitability and discount rate applied in cash flow discount model may be required in the accounting for spin-off. Management judgment is required as well in determining cash generating unit and establishing business plan.

In terms of the fair value measurement on the newly established companies, the management has adopted the following processes:

Independent Auditor's Report

- Determine assets and liabilities for the newly established companies Hyosung TNC Corporation, Hyosung Heavy Industries, Hyosung Advanced Materials and Hyosung Chemical Corporation.
- Determine the cash generating unit of the newly established companies and measures the value-in-use by using the historical financial information and business plan.
- Determine the fair value by considering other non-cash assets and liabilities.

We have determined this item as the key audit matters by considering significance of the amounts, involved judgment and level of estimates.

We have determined whether the model applied for the fair value of assets distributed is theoretically or mathematically appropriate, the assumption is appropriate, and the process established by management to forecast the cash flow is appropriate.

In those regards, our key audit procedures are as follows:

- Determine the reasonableness on the assumptions applied in the business plan based on the understanding of the business plan of newly established companies and the comparison with the historical business plan
- Compare the budget and interim business plan approved by the Board of Directors with annual business plan
- Recalculate the value-in-use
- Review the appropriateness of the key assumptions used in determining the value-in-use, cash flow forecasts, long-term growth rate and discount rate by comparing our understanding on the business outlook of cash generating unit with publicly available information
- Sensitivity analysis based on the accuracy of the historical forecasts
- Review the appropriateness of financial statement disclosures

(2) Accounting for step acquisition of associates' equity

The Company acquired the additional equities of the newly established companies; Hyosung TNC Corporation, Hyosung Heavy Industries, Hyosung Advanced Materials and Hyosung Chemical Corporation on December 20, 2018. In this regard, financial assets measured at fair value through other comprehensive income were reclassified into investments in associates.

We have adopted the accounting for step acquisition of associates' equity as the key audit matter due to the following reasons;

Investments in subsidiaries and associates account for 63% of

the total assets.

We have concluded that the step acquisition of associates' equity is a critical sector that the relevant transactions in the financial statements are material and have a significant impact in organizing our audit strategy and assigning the audit works.

In those regards, we have performed the following audit procedures:

- Review the appropriateness of acquisition cost of investments in associates

Other Matters

The separate financial statements of the Company for the year ended December 31, 2017, presented herein for comparative purpose, were audited by Samil Pwc whose report dated on February 26, 2018, expressed an unmodified opinion on those statements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Korean IFRSs, 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.

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on

the basis of these separate financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within

the Company to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yong-Woon Yun.

February 28, 2019

Nexia Samduk

Seoul, Korea

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

Hyosung Corporation

Separate Statements of Financial Position

As at December 31, 2018 and 2017
(In millions of Korean Won)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	11,916	46,622
Trade and other receivables	42,197	963,038
Due from customers for contract work	43	139,977
Other financial assets	-	18,513
Other current assets	6,931	122,461
Inventories	17,569	642,743
	78,656	1,933,354
Non-current assets		
Long-term trade and other receivables	46,009	328,125
Property, plant and equipment	531,301	3,339,790
Investment property	6,176	427,037
Intangible assets	37,145	24,430
Investments in subsidiaries and associates	1,328,415	1,521,103
Other non-current financial assets	68,484	242,214
Other non-current assets	24,681	28,231
	2,042,211	5,910,930
Total assets	2,120,868	7,844,283
Liabilities		
Current liabilities		
Trade and other payables	75,379	1,418,148
Due to customers for contract work	1	76,704
Borrowings	837	1,318,461
Other financial liabilities	120	3,198
Current tax liabilities	8,631	45,606
Other current liabilities	2,741	249,004
	87,709	3,111,122
Non-current liabilities		
Long-term trade and other payables	16,314	204,618
Long-term borrowings	1,035	811,362
Other non-current financial liabilities	-	584
Post-employment benefit obligation	4,902	15,605
Deferred tax liabilities	140,972	104,615
Other non-current liabilities	601	122,666
	163,824	1,259,450
Total liabilities	251,533	4,370,572
Equity		
Share capital	105,355	175,587
Share premium	451,188	130,826
Retained earnings	5,828,979	2,937,089
Other components of equity	(4,516,187)	230,208
	1,869,336	3,473,711
Total equity	1,869,336	3,473,711
Total liabilities and equity	2,120,868	7,844,283

Hyosung Corporation

Separate Statements of Profit or Loss

For the years ended December 31, 2018 and 2017
(In millions of Korean Won, except earnings per share)

	2018	2017
Revenue	352,311	211,252
Cost of sales	323,290	191,913
Gross profit	29,021	19,340
Selling and administrative expenses	51,547	46,171
Research and development expenses	143	445
Operating profit (loss)	(22,668)	(27,277)
Other income	44,802	44,476
Other expenses	(3,972)	(23,812)
Finance income	14,774	17,091
Finance expenses	(14,811)	(10,954)
Impairment loss on investment in subsidiaries and associates	(500)	(630)
Profit before income tax	17,624	(1,107)
Income tax benefit expense (benefit)	(1,071)	(108,561)
Profit for the year from continuing operation	18,695	107,454
Profit for the year from discontinued operation	3,000,820	208,614
Profit for the year	3,019,516	316,067
Basic earnings per share from continuing operation	862	3,230
Basic earnings per share from discontinued operation	138,350	6,271

Separate Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017
(In millions of Korean Won)

	2018	2017
Profit for the year	3,019,516	316,067
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive come	(93,371)	-
Remeasurements of net defined benefit liability	1,357	12,366
Items that may be subsequently reclassified to profit or loss		
Reclassification due to disposal of available-for-sale financial assets	-	(23,883)
Exchange difference of translation of foreign operations	(901)	(1,912)
Other comprehensive income for the period, net of tax	(92,915)	(13,429)
Total comprehensive income for the year	2,926,601	302,638

Hyosung Corporation

Separate Statements of Changes in Equity

For the years ended December 31, 2018 and 2017
(In millions of Korean Won)

	Share Capital	Share Premium	Retained Earnings	Other Components of Equity	Total
Balance at January 1, 2017	175,587	130,826	2,774,999	335,804	3,417,216
Total comprehensive income					
Profit for the year	-	-	316,067	-	316,067
Gain(loss) on valuation of available-for-sales financial assets	-	-	-	(23,883)	(23,883)
Remeasurements of net defined benefit liability	-	-	12,366	-	12,366
Exchange differences on translation of foreign operations	-	-	-	(1,912)	(1,912)
Reduction from merger	-	-	-	(79,800)	(79,800)
Transactions with owners					-
Dividend	-	-	(166,343)	-	(166,343)
Balance at December 31, 2017	175,587	130,826	2,937,089	230,208	3,473,711
Balance at January 1, 2018	175,587	130,826	2,937,089	230,208	3,473,711
Effect from change in accounting policy	-	-	37,360	(42,078)	(4,718)
Adjusted balance	175,587	130,826	2,974,449	188,130	3,468,993
Total comprehensive income					
Profit for the year	-	-	3,019,516	-	3,019,516
Gain(loss) on valuation of financial assets measured at FVOCI	-	-	-	(93,371)	(93,371)
Remeasurements of net defined benefit liability	-	-	1,357	-	1,357
Exchange differences on translation of foreign operations	-	-	-	(901)	(901)
Transactions with owners					
Dividend	-	-	(166,343)	-	(166,343)
Capital increase with consideration	36,379	399,796	-	-	436,175
Others	-	-	-	(787)	(787)
Movements from spin-off	(106,612)	(79,434)	-	(4,609,259)	(4,795,304)
Balance at December 31, 2018	105,355	451,188	5,828,979	(4,516,187)	1,869,336

Hyosung Corporation

Separate Statements of Cash Flows

For the years ended December 31, 2018 and 2017
(In millions of Korean Won)

	2018	2017
Cash flows from operating activities		
Cash generated from operations	(89,122)	587,286
Income taxes paid	(39,424)	(93,498)
Interest paid	(30,707)	(70,018)
Interest received	502	822
Dividend received	45,081	191,890
Net cash inflow from operating activities	(113,670)	616,481
Cash flows from investing activities		
Collection of loans	1,097	2,175
Decrease in short-term financial instrument	208	31,379
Proceeds from sales of available-for-sales financial assets	1	823
Collection of long-term loans	13,081	27,429
Decrease in long-term deposit	7,038	7,954
Proceeds from sale of property, plant and equipment	2,778	2,254
Government grants received	3,499	343
Proceeds from sales of investment property	-	56,000
Proceeds from sales of intangible assets	222	1,212
Proceeds from sales of investment in subsidiaries and associates	-	7
Decrease in long-term financial instrument	4,290	318
Cash flows from merger	-	22,617
Increase in short-term loans	(569)	(2,480)
Acquisition of available-for-sales financial assets	(4,354)	(71,858)
Increase in long-term loans	(253,195)	(162,475)
Increase in long-term deposits	(3,672)	(17,374)
Acquisition of property, plant and equipment	(108,392)	(172,975)
Acquisition of investment property, plant and equipment	-	(780)
Acquisition of intangible assets	(7,625)	(4,545)
Acquisition of subsidiaries and associates	(219,861)	(883)
Increase in short-term financial instrument	-	(29,075)
Increase in long-term financial instrument	(4,568)	(2,482)
Acquisition of other investment assets	(396)	(22)
Net cash outflow from investing activities	(570,419)	(312,439)
Cash flows from financing activities		
Proceeds from short-term borrowings	5,764,984	6,469,089
Proceeds from long-term borrowings	247,326	60,000
Proceeds from issuance of debentures	269,136	-
Government grants received	1,498	1,830
Repayment of short-term borrowings	(4,647,804)	(6,188,062)
Repayment of current portion of long-term borrowings	(136,671)	(472,752)
Repayment of government grants	(1,696)	(1,850)
Dividends paid	(166,343)	(166,343)
Acquisition of treasury shares	(787)	-
Share issuance cost	(377)	-
Cash outflows from spin-off	(679,882)	-
Net cash outflow from financing activities	649,383	(298,088)
Net increase(decrease) in cash and cash equivalents	(34,706)	5,954
Cash and cash equivalents at the beginning of the period	46,622	40,667
Cash and cash equivalents at the end of the period	11,916	46,622

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Hyosung Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea ("Korean IFRS").

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

The reader of this report may need to draw attention to the matters explained in Note 41 to the consolidated financial statements. As a result of the spin-off dated on June 1, 2018, the Group was separated into the surviving company; Hyosung Corporation that manages the equities and investments of the subsidiaries, and newly established companies; Hyosung TNC Corporation, Hyosung Corporation, Hyosung Advanced Materials Corporation and Hyosung Chemical Corporation that operate business in textile and trading, heavy industries and construction, industrial materials and chemical products, respectively. Accordingly, the Group presented the performance of the discontinued operation as the separate line item in the consolidated statements of profit or loss and restated the prior period's separate statement of profit or loss presented herein as comparative purpose.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Accounting for spin-off

As explained in the Note 41 to the consolidated financial statements, as a result of the spinoff dated on June 1, 2018, the Group was separated into the surviving company Hyosung Corporation and newly established companies Hyosung TNC Corporation, Hyosung Corporation, Hyosung Advanced Materials Corporation and Hyosung Chemical Corporation.

In accordance with Korean IFRS 2117, non-cash assets to be distributed to owners ("assets distributed") are measured at fair value and the differences between the carrying amount and fair value of the assets distributed are recognized as a profit or loss of the current period. In accordance with Korean IFRS 1105, the spin-off is required to be disclosed as a discontinued operation.

For the fair value measurement of the assets distributed, critical assumptions and judgments in respect for future cash flow, long-term growth rate, profitability and discount rate applied in cash flow discount model may be required in the accounting for spin-off. Management judgment is required as well in determining cash generating unit and establishing business plan.

In terms of the fair value measurement on the newly established companies, the management has adopted the following processes:

Independent Auditor's Report

- Determine assets and liabilities for the newly established companies Hyosung TNC Corporation, Hyosung Corporation, Hyosung Advanced Materials Corporation and Hyosung Chemical Corporation.
- Determine the cash generating unit of the newly established companies and measures the value-in-use by using the historical financial information and business plan.
- Determine the fair value by considering other non-cash assets and liabilities.

We have determined this item as the key audit matters by considering significance of the amounts, involved judgment and level of estimates.

We have determined whether the model applied for the fair value of assets distributed is theoretically or mathematically appropriate, the assumption is appropriate, and the process established by management to forecast the cash flow is appropriate.

In those regards, our key audit procedures are as follows:

- Determine the reasonableness on the assumptions applied in the business plan based on the understanding of the business plan of newly established companies and the comparison with the historical business plan
- Compare the budget and interim business plan approved by the Board of Directors with annual business plan
- Recalculate the value-in-use
- Review the appropriateness of the key assumptions used in determining the value-in-use, cash flow forecasts, long-term growth rate and discount rate by comparing our understanding on the business outlook of cash generating unit with publicly available information
- Sensitivity analysis based on the accuracy of the historical forecasts
- Review the appropriateness of financial statement disclosures

(2) Accounting for step acquisition of associates' equity

The Group acquired the additional equities of the newly established companies ; Hyosung TNC Corporation, Hyosung Corporation, Hyosung Advanced Materials Corporation and Hyosung Chemical Corporation on December 20, 2018. In this regard, financial assets measured at fair value through other comprehensive income were reclassified into investments in associates.

We have adopted the accounting for step acquisition of associates' equity as the key audit matter due to the following reasons;

Investments in subsidiaries and associates account for 19% of the total assets.

We have concluded that the step acquisition of associates' equity is a critical sector that the relevant transactions in the financial statements are material and have a significant impact in organizing our audit strategy and assigning the audit works .

In those regards, we have performed the following audit procedures:

- Review the appropriateness of acquisition cost of investments in associates
- Review the key assumptions and inputs applied to the valuation report on purchase price allocation of acquired investments in associates
- Review the appropriateness on recognition and measurement of gain from bargain purchase

Other Matters

The consolidated financial statements of the Group for the year ended December 31, 2017 presented herein for comparative purpose were audited by Samil PwC whose report dated on February 26, 2018, expressed an unmodified opinion on those statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Korean IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

material if, individually or in, the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial

statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yong-Woon Yun.

February 28, 2019



Seoul, Korea

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

Hyosung Corporation and Subsidiaries

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017
(In millions of Korean Won)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	341,208	501,133
Trade and other receivables	464,296	2,013,676
Due from customers for contract work	382	140,355
Other financial assets	10,274	82,976
Other current assets	48,076	190,579
Inventories	498,426	1,679,932
Current tax assets	16,740	22,330
	1,379,400	4,630,981
Non-current assets		
Long-term trade and other receivables	54,216	313,040
Property, plant and equipment	947,976	5,663,176
Investment property	145,644	550,217
Intangible assets	162,328	318,130
Investments in associates	1,242,027	117,238
Other financial business assets	1,958,459	2,240,413
Other non-current financial assets	447,329	580,452
Other non-current assets	38,235	65,686
Deferred tax assets	32,291	55,646
	5,028,505	9,903,997
Total assets	6,407,905	14,534,979
Liabilities		
Current liabilities		
Trade and other payables	471,129	2,073,792
Due to customers for contract work	8,741	78,409
Borrowings	1,571,441	4,916,997
Other financial liabilities	161	4,088
Current tax liabilities	28,109	83,601
Other current liabilities	168,290	444,292
	2,247,871	7,601,179
Non-current liabilities		
Long-term trade and other payables	220,786	400,492
Long-term borrowings	942,926	2,345,089
Post-employment benefit obligation	10,068	23,275
Deferred tax liabilities	273,052	174,324
Other non-current financial liabilities	39	593
Other non-current liabilities	11,015	126,744
	1,457,887	3,070,518
Total liabilities	3,705,758	10,671,697
Equity		
Equity attributable to owners of the Parent Company		
Share capital	105,355	175,587
Share premium	451,188	130,826
Retained earnings	6,353,427	3,143,153
Other components of equity	(4,467,327)	203,950
	2,442,642	3,653,516
Non-controlling interest	259,504	209,765
Total equity	2,702,147	3,863,282
Total liabilities and equity	6,407,905	14,534,979

Hyosung Corporation and Subsidiaries

Consolidated Statements of Profit or Loss

For the years ended December 31, 2018 and 2017
(In millions of Korean Won, except earnings per share)

	2018	2017
Revenue	2,991,006	2,692,847
Cost of sales	2,552,511	2,344,612
Gross profit	438,496	348,235
Selling and administrative expenses	277,358	295,542
Research and development expenses	17,654	16,769
Operating profit	143,483	35,924
Other income	23,835	13,167
Other expenses	(25,704)	(36,272)
Finance income	50,250	70,054
Finance expenses	(83,193)	(95,028)
Share of profit of associates	458,563	7,491
Profit before income tax	785,029	257,935
Income tax benefit expense (benefit)	103,167	(85,353)
Profit for the year from continuing operation	681,862	343,288
Profit for the year from discontinued operation	2,961,909	260,151
Profit for the year	3,643,772	603,439
Profit attributable to:		
Owners of the Parent Company	3,357,772	325,574
Non-controlling interests	68,205	15,265
	3,425,977	340,839
Earnings per share attributable to the equity holders of the Parent Company		
Basic earnings per share from continuing operation	18,541	2,548
Basic earnings per share from discontinued operation	136,266	7,238

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017
(In millions of Korean Won)

	2018	2017
Profit for the year	3,425,977	340,839
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(94,024)	-
Remeasurements of net defined benefit liability	(1,327)	14,004
Share of remeasurements of net defined benefit liabilities of associates	(415)	(742)
Items that may be subsequently reclassified to profit or loss		
Change in the fair value of available-for-sale financial assets	-	(34,114)
Share of other comprehensive income of associates	(6,278)	96
Exchange differences	18,452	(110,817)
Other comprehensive income for the year, net of tax	(83,591)	(131,573)
Total comprehensive income for the year	3,342,385	209,266
Total comprehensive income for the year		
Owners of the Parent Company	3,278,124	202,781
Non-controlling interest	64,262	6,485
	3,342,385	209,266

Hyosung Corporation and Subsidiaries

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017
(In millions of Korean Won)

	Attributable to Owners of the Parent Company					Non-Controlling Interest	Total Equity
	Share Capital	Share Premium	Retained Earnings	Other Components of Equity	Total		
Balance at January 1, 2017	175,587	130,826	2,971,857	340,939	3,619,209	222,007	3,841,216
Total comprehensive income							
Profit for the year	-	-	325,574	-	325,574	15,265	340,839
Remeasurements of net defined benefit liability	-	-	13,384	-	13,384	619	14,004
Share of remeasurements of net defined benefit liabilities of associates	-	-	(742)	-	(742)	-	(742)
Change in fair value of available-for-sale financial assets	-	-	-	(33,940)	(33,940)	(174)	(34,114)
Share of other comprehensive income of associates	-	-	-	96	96	-	96
Exchange differences on translation of foreign operations	-	-	-	(101,591)	(101,591)	(9,226)	(110,817)
Transactions with owners							
Dividend	-	-	(166,343)	-	(166,343)	(20,130)	(186,473)
Changes in other capital surplus	-	-	-	(149)	(149)	-	(149)
Others	-	-	(577)	(1,405)	(1,982)	1,403	(579)
Balance at December 31, 2017	175,587	130,826	3,143,153	203,950	3,653,516	209,765	3,863,282
Balance at January 1, 2018	175,587	130,826	3,143,153	203,950	3,653,516	209,765	3,863,282
Effect from change in accounting policy	-	-	19,468	(42,705)	(23,237)	(600)	(23,837)
Total comprehensive income							
Profit for the year	-	-	3,357,772	-	3,357,772	68,205	3,425,977
Remeasurements of net defined benefit liability	-	-	(609)	-	(609)	(718)	(1,327)
Share of remeasurements of net defined benefit liabilities of associates	-	-	(415)	-	(415)	-	(415)
Gain(loss) on valuation of financial assets measured at fair value through other comprehensive income	-	-	-	(93,460)	(93,460)	(564)	(94,024)
Share of other comprehensive income of associates	-	-	-	(2,474)	(2,474)	(3,804)	(6,278)
Exchange differences on translation of foreign operations	-	-	-	17,309	17,309	1,143	18,452
Transactions with owners							
Capital Increase with consideration	36,379	399,796	-	-	436,175	-	436,175
Dividend	-	-	(166,343)	-	(166,343)	(17,820)	(184,163)
Others capital adjustment	-	-	-	(787)	(787)	-	(787)
Movements from spin-off	(106,612)	(79,434)	-	(4,549,448)	(4,735,494)	2,693	(4,732,800)
Others	-	-	399	-	399	1	400
Effect from change in ownership ratio on subsidiaries	-	-	-	288	288	1,204	1,492
Balance at December 31, 2018	105,355	451,188	6,353,427	(4,467,327)	2,442,642	259,505	2,702,147

Hyosung Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017
(In millions of Korean Won)

	2018	2017
Cash flows from operating activities		
Cash generated from operations	283,484	857,417
Income taxes paid	(79,599)	(151,873)
Interest paid	(105,049)	(179,904)
Interest received	158,608	150,841
Dividend received	6,569	8,141
Net cash inflow from operating activities	264,012	684,622
Cash flows from investing activities		
Proceeds from sales of other receivables	2,550	3,751
Proceeds from sales of other financial liabilities	39,465	100,125
Proceeds from sales of long-term other receivables	98,808	101,855
Proceeds from sale of property, plant and equipment	10,252	7,136
Proceeds from sales of investment property	-	56,419
Proceeds from sales of intangible assets	502	1,670
Government grants received	3,499	343
Proceeds from sale of investment in associates	2,032	724
Proceeds from sale of investment in subsidiaries	(481)	(497)
Acquisition of other receivable	(315)	(29,791)
Acquisition of other financial assets	(16,694)	(119,546)
Acquisition of long-term other receivable	(285,158)	(183,009)
Acquisition of non-current financial assets	(115,865)	(191,926)
Acquisition of investment property, plant and equipment	(358,104)	(704,262)
Acquisition of intangible assets	(11,394)	(11,626)
Acquisition of investments in associates	(2,134)	(700)
Acquisition of other non-current assets	(470)	(869)
Net cash outflow from investing activities	(633,505)	(970,203)
Cash flows from financing activities		
Proceeds from short-term borrowings	7,862,977	10,856,705
Proceeds from long-term borrowings and debentures	1,366,336	1,575,293
Government grants received	1,498	1,830
Repayment of short-term borrowings	(6,692,982)	(10,367,253)
Repayment of long-term borrowings and debentures	(1,016,543)	(1,525,308)
Dividends paid	(184,163)	(186,473)
Repayment of government grants	(1,695)	(1,850)
Proceeds from long-term withholding deposits	10	15,670
Repayment of withholding deposits	11	-
Acquisition of treasury shares	(787)	-
Others	(377)	-
Cash outflows from spin-off	(1,109,215)	-
Net cash inflow from financing activities	225,069	368,615
Effects of exchange rate changes on cash and cash equivalents	(15,500)	(13,609)
Net increase(decrease) in cash and cash equivalents	(159,924)	69,425
Cash and cash equivalents at the beginning of the year	501,133	431,707
Cash and cash equivalents at the end of the year	341,208	501,133

HYOSUNG

HYOSUNG

119 Mapo-daero, Mapo-gu,
Seoul, Republic of Korea

TEL 82-2-707-7000

FAX 82-2-707-6498