

**Hyosung Corporation and Subsidiaries**

**Consolidated Financial Statements**

**December 31, 2018**

**(With Independent Auditor's Report Thereon)**

# Hyosung Corporation and Subsidiaries

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**Independent Auditor's Report**  
**(Based on report originally issued in Korean)**

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 spin-off 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:

- 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.

*Nexia Samduk*

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.

**(Attachment) Consolidated Financial Statements**

**Hyosung Corporation and its Subsidiaries**

**The 64<sup>th</sup> period**

**From January 1, 2018 to December 31, 2018**

**The 63<sup>rd</sup> period**

**From January 1, 2017 to December 31, 2017**

**"The attached consolidated financial statements were prepared by the Company."**

**CEO Kyu-Young Kim of Hyosung Corporation**

<b>The Headquarter</b>	<b>Address</b>	<b>119 Mapo-daero, Mapo-gu, Seoul, Korea</b>
	<b>Tel</b>	<b>(02) 707-7000</b>

**Hyosung Corporation and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**As at December 31, 2018 and 2017**

(In millions of Korean Won)

	Notes		2018		2017
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	4, 8, 9, 10	₩	341,208	₩	501,133
Trade and other receivables	4, 7, 8, 11, 20		464,296		2,013,676
Due from customers for contract work	4, 8		382		140,355
Other financial assets	4, 5, 8, 12		10,274		82,976
Other current assets	14		48,076		190,579
Inventories	15		498,426		1,679,932
Current tax assets			16,740		22,330
			<u>1,379,400</u>		<u>4,630,981</u>
<b>Non-current assets</b>					
Long-term trade and other receivables	4, 8, 11, 20		54,216		313,040
Property, plant and equipment	16		947,976		5,663,176
Investment property	17		145,644		550,217
Intangible assets	18		162,328		318,130
Investments in associates	19, 20		1,242,027		117,238
Other financial business assets	4, 8, 13		1,958,459		2,240,413
Other non-current financial assets	4, 5, 8, 10, 12		447,329		580,452
Other non-current assets	14		38,235		65,686
Deferred tax assets	24		32,291		55,646
			<u>5,028,505</u>		<u>9,903,997</u>
<b>Total assets</b>		₩	<u>6,407,905</u>	₩	<u>14,534,979</u>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	4, 8, 20, 21	₩	471,129	₩	2,073,792
Due to customers for contract work			8,741		78,409
Borrowings	4, 8, 22		1,571,441		4,916,997
Other financial liabilities	4, 5, 8, 12		161		4,088
Current tax liabilities			28,109		83,601
Other current liabilities	25		168,290		444,292
			<u>2,247,871</u>		<u>7,601,179</u>
<b>Non-current liabilities</b>					
Long-term trade and other payables	4, 8, 20, 21		220,786		400,492
Long-term borrowings	4, 8, 22		942,926		2,345,089
Post-employment benefit obligation	23		10,068		23,275
Deferred tax liabilities	24		273,052		174,324
Other non-current financial liabilities	4, 5, 8, 12		39		593
Other non-current liabilities	25		11,015		126,744
			<u>1,457,887</u>		<u>3,070,518</u>
<b>Total liabilities</b>			<u>3,705,758</u>		<u>10,671,697</u>
<b>Equity</b>					
<b>Equity attributable to owners of the Parent Company</b>					
Share capital	26		105,355		175,587
Share premium			451,188		130,826
Retained earnings	27		6,353,427		3,143,153
Other components of equity	12, 24, 28		(4,467,327)		203,950
			<u>2,442,642</u>		<u>3,653,516</u>
<b>Non-controlling interest</b>	39		259,504		209,765
<b>Total equity</b>			<u>2,702,147</u>		<u>3,863,282</u>
<b>Total liabilities and equity</b>		₩	<u>6,407,905</u>	₩	<u>14,534,979</u>

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

**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)

	Notes	2018		2017	
<b>Revenue</b>	6, 20, 29	₩	2,991,006	₩	2,692,847
<b>Cost of sales</b>	20, 30		2,552,511		2,344,612
<b>Gross profit</b>			438,496		348,235
Selling and administrative expenses	30, 31, 32		277,358		295,542
Research and development expenses	30		17,654		16,769
<b>Operating profit</b>	6		143,483		35,924
Other income	33		23,835		13,167
Other expenses	33		(25,704)		(36,272)
Finance income	34		50,250		70,054
Finance expenses	34		(83,193)		(95,028)
Share of profit of associates	19		458,563		7,491
<b>Profit before income tax</b>			785,029		257,935
Income tax benefit expense (benefit)	24		103,167		(85,353)
<b>Profit for the year from continuing operation</b>			681,862		343,288
<b>Profit for the year from discontinued operation</b>	41		2,961,909		260,151
<b>Profit for the year</b>		₩	3,643,772	₩	603,439
<b>Profit attributable to:</b>					
Owners of the Parent Company	35		3,357,772		325,574
Non-controlling interests			68,205		15,265
		₩	3,425,977	₩	340,839
<b>Earnings per share attributable to the equity holders of the Parent Company</b>					
Basic earnings per share from continuing operation	35	₩	18,541	₩	2,548
Basic earnings per share from discontinued operation	35		136,266		7,238

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

**Hyosung Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended December 31, 2018 and 2017**

(In millions of Korean Won)

	Notes	2018	2017
<b>Profit for the year</b>		₩ 3,425,977	₩ 340,839
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Financial assets measured at fair value through other comprehensive income	12,28	(94,024)	-
Remeasurements of net defined benefit liability	23	(1,327)	14,004
Share of remeasurements of net defined benefit liabilities of associates		(415)	(742)
<b>Items that may be subsequently reclassified to profit or loss</b>			
Change in the fair value of available-for-sale financial assets	12, 28	-	(34,114)
Share of other comprehensive income of associates	19, 28	(6,278)	96
Exchange differences	28	18,452	(110,817)
<b>Other comprehensive income for the year, net of tax</b>		<u>(83,591)</u>	<u>(131,573)</u>
<b>Total comprehensive income for the year</b>		<u>₩ 3,342,385</u>	<u>₩ 209,266</u>
<b>Total comprehensive income for the year</b>			
Owners of the Parent Company		₩ 3,278,124	₩ 202,781
Non-controlling interest		64,262	6,485
		<u>₩ 3,342,385</u>	<u>₩ 209,266</u>

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

# 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 Component of Equity	Total		
<b>Balance at January 1, 2017</b>	₩ 175,587	₩ 130,826	₩ 2,971,857	₩ 340,939	₩ 3,619,209	₩ 222,007	₩ 3,841,216
<b>Total comprehensive income</b>							
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)
<b>Transactions with owners</b>							
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)
<b>Balance at December 31, 2017</b>	₩ 175,587	₩ 130,826	₩ 3,143,153	₩ 203,950	₩ 3,653,516	₩ 209,765	₩ 3,863,282
<b>Balance at January 1, 2018</b>	₩ 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)
<b>Total comprehensive income</b>							
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
<b>Transactions with owners</b>							
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
<b>Balance at December 31, 2018</b>	₩ 105,355	₩ 451,188	₩ 6,353,427	₩ (4,467,327)	₩ 2,442,642	₩ 259,505	₩ 2,702,147

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

**Hyosung Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**

(In millions of Korean Won)

	Notes	2018	2017
<b>Cash flows from operating activities</b>			
Cash generated from operations	37	₩ 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
<b>Net cash inflow from operating activities</b>		<b>264,012</b>	<b>684,622</b>
<b>Cash flows from investing activities</b>			
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)
<b>Net cash outflow from investing activities</b>		<b>(633,505)</b>	<b>(970,203)</b>
<b>Cash flows from financing activities</b>			
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)	-
<b>Net cash inflow from financing activities</b>		<b>225,069</b>	<b>368,615</b>
Effects of exchange rate changes on cash and cash equivalents		(15,500)	(13,609)
<b>Net increase(decrease) in cash and cash equivalents</b>		<b>(159,924)</b>	<b>69,425</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>501,133</b>	<b>431,707</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>₩ 341,208</b>	<b>₩ 501,133</b>

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

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2018 and 2017**

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**1. General Information**

Hyosung Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”) were established on November 3, 1966, and primarily manufactures and sells synthetic fiber products and electronic products, and is engaged in construction, international trade and other related business activities. As a result of the spin-off dated on June 1, 2018, the controlling 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 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.

As at December 31, 2018, the Company has plants in Anyang and ect. In addition, the Group has subsidiaries and branches all over the countries in the United States, Europe and Asia.

As at December 31, 2018, the shareholders of the Group are as follows:

<u>Shareholders</u>	<u>(In number of shares and percentage)</u>	
	<u>Number of Shares</u>	<u>Percentage of ownership(%)</u>
Cho Seok-Rae	1,986,333	9.43
Cho Hyun-Joon	4,623,736	21.94
Cho Hyun-Sang	4,513,596	21.42
Song Kwang-Ja	101,387	0.48
Cho Yang-Rae and others	11,915	0.06
Others	9,093,857	43.16
Treasury stocks	740,201	3.51
Total	<u>21,071,025</u>	<u>100</u>

**Hyosung Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2018 and 2017**

**1-1 Consolidated Subsidiaries**

Details of the consolidated subsidiaries as at December 31, 2018 are as follows:

Subsidiaries	Percentage of ownership(%)	Location	Reporting month	Main business
Hyosung Good Springs Co., Ltd.	100	Korea	December	Liquid Pump Manufacturing
Taeon Solar Farm Co., Ltd.	100	Korea	December	Photovoltaic power generation business
Hyosung Investment & Development Co., Ltd.	58.75	Korea	December	Property leasing
Gongdeok Case Development Co., Ltd.	73.33	Korea	December	Property leasing
Pohang New & Renewable Energy Co., Ltd.	100	Korea	December	Power Plant Engineering
Hyosung Transworld Co., Ltd.	100	Korea	December	International logistics supply business
Hyosung T & S Co., Ltd.	54.02	Korea	December	ATM manufacturing
ITM Plus	53.11	Korea	December	CD VAN business
NEC MS Mfg. Co., Ltd.	100	Korea	December	ATM cash transportation
N. Tech Co., Ltd.	100	Korea	December	ATM machine maintenance, interior
Hyosung FMS Co., Ltd.	100	Korea	December	Electronic payment agency
EMK Corporation	100	Korea	December	Automobile sales and maintenance
Alternative Investment Land Chip Private Real Estate Investment Trust No. 39	100	Korea	December	Real Estate Services
Hyosung Capital	97.49	Korea	December	Facilities rental and installment financing
Hyosung Capital Co., Ltd. Twenty-one Securitization Specialty Co., Ltd. (*1)	0.49	Korea	December	Other
Hyosung Capital Secondary Securitization Specialty Co., Ltd. (*1)	0.49	Korea	December	Other
HS Corporation First-class Ltd. (*1)	-	Korea	December	Other
HYOSUNG SUMIDEN STEEL CORD(NANJING)CO.LTD.	100	China	December	Manufacture and sale of steel cord
Hyosung Financial System (Huizhou) Co.,LTD	100	China	December	Manufacture and sales of financial automation equipment
Hyosung USA Inc.	100	USA	December	Tire reinforcement production
Hyosung Participacoes Brasil LTDA	100	Brazil	December	Production and sales of tire reinforcing materials
HICO America Sales & Tech.	100	USA	December	General trade business
PT. HYOSUNG JAKARTA	99.9	Indonesia	December	General trade business
Hyosung Holdings USA, Inc.	100	USA	December	US holding company
Hyosung Mexico S. de R.L. de C.V.	100	Mexico	December	Leasing business
GST Safety Textiles Mexico S. de R.L. de C.V	100	Mexico	December	Manufacture and sale of airbag cushion and fabric
Nautilus Hyosung America Inc.	100	USA	December	Sales and maintenance of ATM machines
Hyosung RUS	100	Russia	December	ATM sales
Hyosung Resource (Australia) PTY Ltd.	100	Australia	December	Mine development
Luck Faith Investment Ltd.(*1)	-	Hong Kong	December	Other
Central Trade Investment Ltd.(*1)	-	Hong Kong	December	Other
Hyosung (H.K) LIMITED	100	Hong Kong	December	General trade business
Hyosung SRL	100	Romania	December	Production and sales of tire reinforcing materials

(\*1): The Group's owns is less than 50% of voting rights. However, the Group has ability to materially impact the returns of the investees and is exposed to variable returns of the investees. Accordingly, the Group is considered to have substantive power over the entities.

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**1-2 Summary of Financial Information on Consolidated Subsidiaries**

Summary of financial information of material subsidiaries as at and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean won)

	2018					
	Asset	Liability	Equity	Revenue	Profit(loss) for the year	Total comprehensive income(loss)
Hyosung Capital Co., Ltd. (*1)	₩ 2,399,351	₩ 1,995,943	₩ 403,408	₩ 202,908	₩ 22,979	₩ 21,772
Hyosung T & S Co., Ltd. (*1)	625,243	319,992	305,251	725,038	25,905	22,113
Hyosung USA Inc.	263,487	155,343	108,144	648,884	11,732	15,930
Hyosung Holdings USA	215,636	136,908	78,728	133,834	(6,491)	(5,964)
Hyosung Good Springs Co., Ltd.	204,372	133,440	70,932	213,208	3,890	3,261
Alternative Investment Land Chip Private Real Estate Investment Trust No. 39	191,939	159,948	31,991	8,154	1,967	1,967
Gongdeok Kyeongwoo Development Co., Ltd.	185,239	213,269	(28,030)	13,760	(8,521)	(8,521)
HICO America Sales & Tech.	146,728	102,719	44,009	241,138	10,283	11,614
FMK Corporation	123,137	96,011	27,126	238,551	5,590	5,648
Hyosung Transworld Co., Ltd.	41,066	30,881	10,185	191,844	3,605	3,626

(In millions of Korean won)

	2017					
	Asset	Liability	Equity	Revenue	Profit(loss) for the year	Total comprehensive income(loss)
Hyosung Capital Co., Ltd. (*1)	₩ 2,705,369	₩ 2,303,396	₩ 401,973	₩ 222,286	₩ 26,532	₩ 14,910
Hyosung T & S Co., Ltd. (*1)	608,172	324,486	283,686	605,005	7,056	7,072
Hyosung USA Inc.	215,440	123,226	92,214	567,574	8,031	(3,287)
Hyosung Good Springs Co., Ltd.	207,372	139,620	67,752	250,705	129	256
HICO America Sales & Tech.	196,925	164,530	32,395	216,263	5,178	1,480
Alternative Investment Land Chip Private Real Estate Investment Trust No. 39	191,941	159,950	31,991	8,087	1,943	1,943
Gongdeok Case Development Co., Ltd.	182,521	202,030	(19,509)	4,539	(18,246)	(18,206)
Hyosung Holdings USA	181,765	99,976	81,789	115,648	(6,182)	(8,556)
FMK Corporation	110,229	88,751	21,478	293,161	5,833	5,726
Hyosung Transworld Co., Ltd.	39,051	28,992	10,059	187,536	3,337	3,424

(\*1): Consolidated financial information basis

**1-3 Changes in Scope for Consolidation**

(1) Subsidiaries newly included in the consolidation for the year ended December 31, 2018, are as follows:

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<b>Subsidiary</b>	<b>Description</b>
Hyosung Capital SPC 16th	Newly acquired
Green Power 5th LLC	Newly acquired
Best Red, Ltd	Newly acquired
Best Blue, Ltd	Newly acquired
Best Purple, Ltd	Newly acquired
Grand 5th Co., Ltd.	Newly acquired
Grand 6th Co., Ltd.	Newly acquired
Grand 7th Co., Ltd.	Newly acquired
Pro Best Kingdom 1sts Co., Ltd.	Newly acquired
Green Power 8th LLC	Newly acquired
Green Plan Energy Ltd.	Newly acquired
HYOSUNG INDIA Pvt Ltd	Establishment
Hyosung Vina Chemical Co., Ltd.	Establishment

(2) Subsidiaries excluded from the consolidation for the year ended December 31, 2018, are as follows:

<b>Subsidiary</b>	<b>Description</b>
Saebitsum Co.	Spin-off
Hyosung Spandex (Jiaxing) Co., Ltd.	Spin-off
Hyosung Spandex (GuangDong) Co., Ltd.	Spin-off
Hyosung Spandex (Zhuhai) Co., Ltd.	Spin-off
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	Spin-off
Hyosung Chemicals (Jiaxing) Co.Ltd.	Spin-off
Hyosung Steel Cord (Qingdao) Co., Ltd.	Spin-off
Nantong Hyosung Transformer Co., Ltd.	Spin-off
Hyosung spandex (Quzhou)	Spin-off
Hyosung NEW Material & High Technology (Quzhou)	Spin-off
Hyosung Istanbul TEKSTIL LTD.STI	Spin-off
Global Safety Textiles GmbH	Spin-off
GST Safety Textiles RO S.R.L.	Spin-off
GST Automotive Safety UK Limited	Spin-off
Global Safety Textiles U.S. Holdings, Inc.	Spin-off
GST Automotive Safety Components International LLC	Spin-off
Global Safety Textiles LLC	Spin-off
GST Automotive Safety Components International LLC S.A.D.C.V	Spin-off
GST China Investment Limited	Spin-off
GST Automotive Safety South Africa (Proprietary) Limited	Spin-off
GST Automotive Safety (Changshu) Co. Ltd	Spin-off
GST Automotive Safety Poland Sp.z.oo	Spin-off
GST Automotive Safety RO S.R.L.	Spin-off
Hyosung Luxembourg S.A	Spin-off
Hyosung Vietnam Co., Ltd.	Spin-off
Hyosung DongNai Co., LTD	Spin-off
HYOSUNG T & D INDIA Pvt Ltd	Spin-off
HYOSUNG INDIA Pvt Ltd	Spin-off
HYOSUNG BRASIL INDUSTRIAL E COMERCIO DE FIBRAS LTDA.	Spin-off
Hyosung International Trade (Jiaxing) Co., Ltd.	Spin-off
Hyosung International (HK) Ltd.	Spin-off
Hyosung Japan Co., Ltd.	Spin-off
Hyosung (Taiwan) Corporation	Spin-off

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Hyosung Singapore PTE Ltd.	Spin-off
Hyosung Europe SRL	Spin-off
Zhangjiagang Xiaosha Coil Service Co., Ltd.	Spin-off
Hyosung Corporation India Private Limited.	Spin-off
Hyosung South Africa (PTY) LTD.	Spin-off
CONSORCIO HYOSUNG-VIMAC, S.A.	Spin-off
Hyosung Capital's 18th Securitization Specialty Co., Ltd.	Liquidation
Hyosung Capital's 20th Securitization Specialty Co., Ltd.	Liquidation
Hyosung Capital's 21st Securitization Specialty Co., Ltd.	Liquidation
Hyosung Capital's 22nd Securitization Specialty Co., Ltd.	Liquidation
Hyosung Capital's 23rd Securitization Specialty Co., Ltd.	Liquidation
Hyosung Capital's 24th Securitization Specialty Co., Ltd.	Liquidation
HSCS's 1st, Ltd	Liquidation
HSCS's 3rd, Ltd	Liquidation
Baoding Hyosung Tianwei Transformer Co., Ltd.	Disposal
Green Power Zechoe, Ltd.	Disposal
Best Red, Ltd.	Disposal
Best Blue, Ltd.	Disposal
Best Purple, Ltd.	Disposal
Grand Zechoa Co., Ltd.	Disposal
Grand Meat Tea Co., Ltd.	Disposal
Grand Seventh Co., Ltd.	Disposal
Pro Best Kingdom First Co., Ltd.	Disposal
Green Power	Disposal
Green Plan Energy LTD	Disposal

## **2. Significant Accounting Policies**

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

### **2.1 Basis of Preparation**

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

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

## **2.2 Changes in Accounting Policy and Disclosure**

### (1) New and amended standards and interpretations adopted by the Group

The Group has applied the following new and amended standards and interpretations for the first time for their annual reporting period commencing January 1, 2018.

- Amendments to Korean IFRS 1028 Investments in Associates and Joint Ventures

The amendment clarifies that the investment stake held by Venture Capital Investment Company, Mutual Fund, etc., can be evaluated, respectively if the investment stakes are evaluated as fair value instead of equity method. As the Group does not apply to the venture capital investment organization and does not apply the above exemption regulation, the amendments do not have a material effect on the financial statements.

- Amendment to Korean IFRS 1040 Transfers of Investment Property

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendments do not have a material effect on the financial statements.

- Amendments to Korean IFRS 1102 Share-based Payment

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments do not have a material effect on the financial statements.

- Enactments of Interpretation 2122 Foreign Currency Transaction and Advance Consideration

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The enactments do not have a material effect on the financial statements.

- Amendments to Korean IFRS 1104 Insurance Contracts

According to the temporary exemption provision of the amendments, the Group may adopt Korean IFRS 1039 instead of applying Korean IFRS 1109 before the period commencing January 1, 2021 under certain conditions including the case where insurer's activities are mostly related to the insurance and etc. The amendments do not have a material effect on the financial statements.

- Amendments to Korean IFRS 1109 Financial Instruments

The Group has applied Korean IFRS 1109 Financial Instruments from the period commencing on January 1, 2018; the date of initial application. In accordance with the transitional provision in Korean IFRS 1109, the financial statements presented herein for the comparative purpose has not been restated. The difference between

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the carrying amount before the adoption of Korean IFRS 1109 and the carrying amount under Korean IFRS 1109 has been recognized as the retained earnings (or equity) at January 1, 2018.

At the date of initial application (January 1, 2018), the details of classification and measurement of financial assets and liabilities in accordance with Korean IFRS 1109 and 1039 are as follows;

		(In millions of Korean Won)				
		Category		Carrying amounts		
		Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039	Additional impairment provision in accordance with Korean IFRS 1109	Korean IFRS 1109
Listed stock	Available-for-sale financial assets		Financial asset measured at FVOCI	₩ 185,345	₩ -	₩ 185,345
Listed stock	Available-for-sale financial assets		Financial asset measured at FVPL	2,072	-	2,072
Non-listed stock	Available-for-sale financial assets		Financial asset measured at FVOCI(*1)	50,554	-	51,288
Non-listed stock	Available-for-sale financial assets		Financial asset measured at FVPL(*2)	239,627	-	242,469
Derivative instrument contract	Derivative assets		Financial asset measured at FVPL(*2)	23,415	-	19,940
Loans	Loan and receivables		Financial asset measured at AC	123,874	-	123,874
Deposits	Loan and receivables		Financial asset measured at AC	218,381	-	218,381
Cash and cash equivalents	Loan and receivables		Financial asset measured at AC	501,133	-	501,133
Trade and other receivables	Loan and receivables		Financial asset measured at AC	1,984,460	(468)	1,983,992
Financial instrument	Loan and receivables		Financial asset measured at AC	162,415	-	162,415
Other financial assets	Loan and receivables		Financial asset measured at AC	2,240,413	(27,330)	2,213,083
Trade and other payables	Financial liabilities measured at AC		Financial liability measured at AC	2,472,060	-	2,472,060
Trade and other payables	Other financial liabilities		Financial liability measured at AC	2,224	-	2,224
Derivative instrument contract	Derivative liabilities		Financial liability measured at FVPL	4,681	-	4,681
Borrowings and debentures	Financial liabilities measured at AC		Financial liability measured at AC	6,571,460	-	6,571,460
Borrowings and debentures	Other financial liabilities		Financial liability measured at AC	690,626	-	690,626

(\*1): The Group has recognized a gain of KRW 734 million from a valuation of non-listed company stock on a fair value basis.

(\*2): The Group has recognized a gain of KRW 634 million from a valuation of invested capital fund on a fair value basis.

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- Amendments to Korean IFRS 1115 Revenue from Contracts with Customers

The Group has applied Korean IFRS 1115, Revenue from Contracts with Customers, for the first time for their annual reporting period commencing January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1115, comparative figures have not been restated. The cumulative effect from the first adoption has been retrospectively applied to the retained earnings (or equity) at January 1, 2018.

The application of Korean IFRS 1115 has the following impact on the consolidated financial statements.

- 1) The following adjustments were made to the consolidated statements of financial position at the date of initial application (January 1, 2018):

	(In millions of Korean Won)					
	<b>December 31, 2017</b>		<b>Adjustments</b>		<b>January 1, 2018</b>	
	<b>(Unadjusted)</b>				<b>(Adjusted)</b>	
Other current assets	₩	190,579	₩	(4,876)	₩	185,703
Inventories		1,679,932		(1,973)		1,677,959
Deferred tax liabilities		174,324		(1,530)		172,794
Retained earnings		3,143,153		(5,319)		3,137,834

- 2) The line items in the consolidated statements of comprehensive income affected by the adoption of Korean IFRS 1115 are as follows:

	(In millions of Korean Won)					
	<b>December 31, 2017</b>		<b>Adjustments</b>		<b>January 1, 2018</b>	
	<b>(Unadjusted)</b>				<b>(Adjusted)</b>	
Revenue	₩	3,015,782	₩	(24,776)	₩	2,991,006
Cost of sales		2,550,948		1,563		2,552,511
Selling and administrative expenses		301,779		(24,421)		277,358
Income tax expense		103,276		(109)		103,167
Profit for the period from continuing operation		464,454		(387)		464,067

- (2) New and amended standards not yet adopted

New accounting standards and interpretations that have been published that are not mandatory for the reporting period and have not been early adopted by the Group are set out below.

- Korean IFRS 1116 Leases

Korean IFRS 1116 Leases issued on May 22, 2017 is effective for the annual period commencing on or after January 1, 2019. This standard will replace Korean IFRS 1017 Leases. The Group will adopt Korean IFRS 1116 from the period commencing on January 1, 2019.

A lessee is required to recognize a lease asset and liability for the underlying leased assets that has a lease term of 12 months or more and are not low value under the new standard adopting single-lessee accounting model. A

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lease is required to recognize its right to use the underlying leased assets and a lease liability representing its obligation to make lease payments.

The Group is analyzing a financial impact on the financial statements for the year of 2019 based on the available information as at December 31, 2018. However, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

- Amendments to Korean IFRS 1109 Financial Instrument

In accordance with the amendments, it is a qualifying financial asset that meet the contractual cash flow regardless of the events or circumstances resulting in early liquidation of the contract and whether the parties are compensated or provide reasonable compensation on early liquidation. The amendment is effective for the annual period commencing on or after January 1, 2019 and early adoption is permitted. The Group is analyzing a financial impact on the financial statements as at December 31, 2018.

- Amendments to Korean IFRS 1019 Employee Benefits

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The Group is analyzing a financial impact on the financial statements as at December 31, 2018.

- Amendments to Korean IFRS 1028 Investments in Associates and Joint Ventures

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted. In accordance with the transitional provisions in Korean IFRS 1109, the restatement of the comparative information is not required and the cumulative effects of initially applying the amendments retrospectively should be recognized in the beginning balance of retained earnings (or other components of equity, as appropriate) at the date of initial application. The Group is analyzing a financial impact on the financial statements as at December 31, 2018.

- Enactment to Interpretation of Korean IFRS 2123 Uncertainty over Income Tax Treatments

The Interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. This interpretation will be applied for annual periods beginning on or after January 1, 2019 and early adoption is permitted. The Group is analyzing a financial impact on the financial statements as at December 31, 2018.

- Annual Improvements to Korean IFRS 2015 – 2017 Cycle

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In respect for Korean IFRS 1103 Business Combination, the amendment clarifies that when a party to a joint arrangement obtains control of a business that is a joint operation and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. Korean IFRS 1111 Joint Agreements, IFRS 1012 Income Tax and 1023 Borrowing Costs have been amended. The Group is analyzing a financial impact on the financial statements as at December 31, 2018.

(3) Financial impact resulting from the newly adopted standards or interpretations

- 1) The details of financial impacts on the consolidated financial statements resulting from the newly adopted standards or interpretations are as follows;

(Summarized statement of financial position)

		(In millions of Korean Won)		
		<b>January 1, 2018</b>		
		<b>Unadjusted</b>	<b>Adjustments</b>	<b>Adjusted</b>
Current assets	₩	4,630,981	₩ (8,317)	₩ 4,622,664
Non-current assets		9,903,997	(26,230)	9,877,767
Total assets		14,534,979	(34,547)	14,500,432
Current liabilities		7,601,179	-	7,601,179
Non-current liabilities		3,070,518	(10,710)	3,059,808
Total liabilities		10,671,697	(10,710)	10,660,987
Total equity		3,863,282	(23,837)	3,839,445

- 2) The details of financial impact on each equity component resulting from changes in accounting policy as at the date of initial recognition are as follows;

		(In millions of Korean Won)		
		<b>January 1, 2018</b>		
		<b>Retained earnings</b>	<b>Other components of equity</b>	<b>Non-controlling interests</b>
Balance at December 31, 2017	₩	3,143,153	₩ 203,950	₩ 209,765
Korean IFRS 1109 1st adoption				
Effect from classification & measurement		(26,927)	3	(792)
Effect of Impairment loss		56,246	(56,246)	-
Income tax effect		(4,531)	13,538	192
Sub-total		24,788	(42,705)	(600)
Korean IFRS 1115 1st adoption				
Capitalization of contract cost		(6,850)	-	-
Income tax effect		1,530	-	-
Sub-total		(5,320)	-	-
January 1, 2018 (Initiative date)	₩	3,162,621	₩ 161,245	₩ 209,165

## **2.2 Consolidation**

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110 Consolidated Financial Statements.

### **(1) Subsidiaries**

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

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

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

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

### **(2) Associates**

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

## **2.3 Segment Reporting**

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

## **2.4 Foreign Currency Translation**

### (1) Functional and presentation currency

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

### (2) Foreign currency transaction and balances at the end of reporting period

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

## **2.5 Financial Assets**

### (1) Financial assets

The financial assets are recognized in the consolidated statement of financial position only when the Group is eligible for the contracting parties and the regular way acquisition or sales are recognized at the transaction date or settlement date. The financial assets are classified to financial assets measured at fair value through profit or loss (“FVPL”), financial assets measured at fair value through other comprehensive income (“FVOCI”) and financial assets at amortized cost (“AC”) depending on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

The financial assets are measured at fair value at initial recognition and the transaction cost directly incurred in relation to the acquisition is added to the fair value at the initial recognition otherwise it falls under the financial assets measured at FVPL.

#### 1) Financial assets measured at FVPL

The following financial assets are classified to financial assets measured at FVPL.

- Financial assets held for short-term trading
- Financial assets designated to financial assets measured at FVPL
- Financial assets that are not measured at FVOCI or AC

The Group may designate certain financial assets upon initial recognition as at fair value through profit or loss when it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

After initial recognition, a financial asset at fair value through profit or loss is measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. Interest income, dividend income,

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and gains or losses from sale and repayment from financial assets at fair value through profit or loss are recognized in the statement of comprehensive income as net gains on financial instruments at fair value through profit or loss.

2) Financial assets measured at FVOCI

Debt instruments that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and equity instruments that

The following financial assets are measured at FVOCI:

- Debt instruments that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal
- Equity instruments that are not held for short-term trade and designed to financial assets measured at FVOCI

The financial assets under this category are measured at fair value after initial recognition. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (and reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss.

When the financial asset under this category is disposed, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. However, the cumulative gain or loss incurred from equity instruments designed to this category is not reclassified to profit or loss.

Fair value of the financial assets under this category presented in foreign currency is measured at the foreign currency and translated by using the exchange rate at the end of the reporting period. Fair value movement resulting from foreign exchange difference due to the changes in amortized costs is recognized as profit or loss of the period and other movement is recognized as an element of equity.

3) Financial assets measured at AC

Financial Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and interest income is calculated by using the effective interest rate method.

4) Derecognition of financial assets

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received.

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(2) Expected credit losses of financial assets (debt instruments)

Expected credit losses (“ECL”) applies to financial assets measured at AC or measured at FVOCI except for fair value through profit or loss at the end of each reporting period. The method on measurement of impairment loss allowance depends on whether the credit risk has significantly increased or not. As presented in the following table, the Group recognizes 12-month expected credit losses in profit or loss or lifetime expected losses depending on whether there is a significant increase in credit risk after initial recognition.

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

(\*1): No significant increase in credit risk is regarded in case where the credit risk is low at the end of the reporting period.

The asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance.

For trade receivables, contract assets and lease receivable, the Group applies the practical expedient to provide for expected credit losses, which requires the use of the lifetime expected loss allowance.

Expected credit loss is a probability weighted value of a range of possible outcomes and measured by using the time value of money, historical events and available information at the end of the reporting period without undue cost or effort to predict future economic circumstance.

(3) Financial liabilities

Financial liabilities are recognized in the consolidated statement of financial position only when the Group is a party of financial instrument contract and classified as financial liabilities measured at FVPL or other financial liabilities. The financial liabilities are measured at fair value at initial recognition and the transaction cost directly incurred in relation to the transaction is deducted from the fair value at the initial recognition otherwise it falls under the financial liabilities measured at FVPL (“FVPL”).

1) Financial liabilities measured at FVPL

Financial liabilities measured at FVPL includes the financial liabilities designated to financial liabilities measured at FVPL at initial recognition. After initial recognition, financial liabilities are measured at fair value and gains or losses arising from a change in the fair value are recognized in profit or loss. The transaction costs are recognized as profit or loss of the period as incurred.

2) Financial liabilities not subject to fair value through profit or loss

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Financial liabilities that are not classified as fair value through profit or loss are measured at amortized costs by using the effective interest rate method after the initial recognition except for the following financial liabilities.

The financial liabilities that the transfer does not qualify for derecognition or the continuing involvement approach is applicable are measured to the extent of net carrying amount of the transferred assets and liabilities. The financial liabilities are measure to the extent where the net carrying amount of the transferred assets and relevant liabilities is equivalent to the independently measured fair value on right and obligation of transferor.

Financial guarantee liabilities (except for the transfer of financial assets that are not qualifying for derecognition or financial liabilities that the continuing involvement approach is applicable) and commitments to provide a loan at a below-market interest rate are measured at the higher of the expected credit loss allowance or the amount initially recognized less the cumulative amount of income.

3) Derecognition of financial liabilities

The financial liabilities (or a part of financial liabilities) are derecognized in the consolidated statement of financial position only when it is extinguished. The initially recognized financial liabilities are derecognized and financial liabilities are newly recognized when the existing debtor or creditor exchanges the debt instrument with substantially non-equivalent condition, or the terms of the existing financial liabilities are substantially changed. The difference between the carrying amount and the consideration resulting from the financial liabilities extinguished or transferred to third parties is recognized as profit or loss of the period.

4) Net-off of financial assets and liabilities

The Group nets off the financial assets and liabilities and presents the net amount in the consolidated statement of financial position when the Group hold a right for net-off and has an intention to settle down the net amount.

5) Classification of liabilities and equities

The debt instrument and equity instrument have been classified to the liabilities or equities based on the substance of the contract or the definition of financial liabilities or equity instrument.

(6) Derivative instruments

Derivatives are initially recognized at fair value on the ate when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period.

1) Embedded derivative instruments

a. Hybrid contract with a host that is financial assets

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Financial assets including embedded derivative instruments are classified based on the whole hybrid contract and the embedded derivative instruments are not separately recognized. The relevant whole hybrid contract is considered when determining whether the contractual cash flows solely consist of principals and interests.

b. Other hybrid contract (Hybrid contract with a host that is not financial assets)

Embedded derivative instruments that meet the following conditions are separated from the host contract and recognized as stand-alone derivative instruments.

- Derivative instruments do not bear economic characteristics and risks of the host contract
- Separate financial instrument that is under same condition with the embedded derivative instrument does meet the definition of derivative instrument
- Changes in fair value of hybrid contract is not recognized as profit or loss of the period

2) Hedge accounting

The Group has applied fair value hedge accounting for the risk hedge resulting from assets or liabilities recognized due to specific risk or fair value change for whole or part of unrecognized firm commitment. The Group has applied cash flow hedge accounting for the risk hedge resulting from assets or liabilities recognized due to specific risk or changes in cash flows that are highly probable to occur.

The Group has documented hedging relationships, risk management purpose, risk management strategy and effect of risk management. The effect of risk management represents an effect that the changes in fair value of derivation instrument and cash flow offsets the risk of change in the fair value or cash flow of risk management objective.

3) Fair value hedge

Fair value change for a derivative instrument that is designated to be the hedged item and qualifies the requirement of fair value hedge accounting is recognized as profit or loss of the period. However, in case where the hedge objective is equity instruments and the Group has selected to present the changes in fair value as other comprehensive income, the profit or loss of hedge objective resulting from the profit or loss of hedged item and hedge objective's risk is recognized as other comprehensive income. Fair value hedge is ceased when the hedged item is extinguished or disposed or exercised, or the hedged item does not qualify the requirement of fair value hedge accounting. The adjustment for carrying amount of hedged item is amortized and recognized as profit or loss of the period from the ceased date.

4) Cash flow hedge

Fair value change of derivative instrument that is designated to hedged item and effective for the hedge is recognized as other comprehensive income. Fair value change of derivative instrument that is designated to hedged item and not effective for the hedge is recognized as profit or loss of the period. Cash flow hedge is ceased when the hedged item is extinguished or disposed or exercised, or the hedged item does not qualify the requirement of cash flow hedge accounting. The accumulated cash flow hedge reserve is retained in cash flow

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reserve until future cash flows occur. However, the accumulated cash flow hedge reserve is recognized as profit or loss of the period at the time when the future cash flows are not expected to occur.

5) Hedge of a net investment in a foreign operation

Fair value changes in net investment in a foreign operation that is effective for the hedge is recognized as other comprehensive income. On the other hand, fair value changes in net investment in a foreign operation that is not effective for the hedge is recognized as profit or loss of the period. The portion that is effective for the hedge and recognized as other comprehensive income is reclassified to profit or loss of the period when the foreign operation is disposed in accordance with Korean IFRS 1021 Foreign Exchange Change Effect.

**2.7 Inventory**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method except for in-transit inventories which are determined using the specific identification method.

**2.7 Property, Plant and Equipment**

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

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows;

	<u>Useful Life</u>
Buildings	10-60 years
Structures	5-40 years
Machinery	3-30 years
Vehicles	3-10 years
Tools and equipment	3-15 years
Others	2-10 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted as the change in estimates if appropriate, at the end of each reporting period.

**2.8 Borrowing Costs**

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

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**2.9 Government Grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and the government grants related to income are deferred and recognized as 'other income' in the statement of profit or loss over the period necessary to match the costs that they compensate.

**2.10 Intangible Assets**

Goodwill is measured using the method explained in Note 2.2(1) and carried at cost less accumulated impairment losses.

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

Software development cost that was internally created is the sum of expenditures incurred after the qualifiable conditions to be recognized as an asset including a technical feasibility, future economic benefit and etc. were met. Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	<u>Useful Life</u>
Industrial rights	5-20 years
Other intangible assets	3-50 years

**2.11 Investment Property**

Investment property is a property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured at depreciated cost (less any accumulated impairment losses) after the initial measurement. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment properties, except for land, using the straight-line method over their useful lives of 40 years.

**2.12 Lease**

A lease is an agreement, whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of lease.

Leases where the Company, as lessee, has substantially all the risks and rewards of ownership been classified as finance leases. Finance leases are capitalized at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance

charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost.

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

### **2.13 Impairment of Non-financial Assets**

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

### **2.14 Financial Guarantee Contracts**

Financial guarantee contracts provided by the Group are measured at fair value at its initial recognition and recognized as account payables or other payables. Financial guarantee contracts are subsequently measured at the higher of the below:

- The amount determined in accordance with Korean IFRS 1037 Provisions, Contingent liabilities and Contingent Assets
- The amount initially recognized less cumulative amortization in accordance with IFRS 1018 Revenue

### **2.15 Provisions**

Provisions are measured at the present value of the estimate of the expenditure required to settle the present obligation at the end of the reporting period and the increase in the provision due to the passage of time is recognized as interest expense.

### **2.16 Current and Deferred Tax**

The tax expense for the period consists of current and deferred tax. Tax is recognized in the profit or loss for the period, except for the items recognized in other comprehensive income or directly in equity.

The tax expense is measured at the amount based on the tax codes that have been enacted or substantively enacted by the end of the reporting period.

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Management periodically evaluates tax policies that are applied in tax return filing in which are changeable in respect for the circumstance varying depending on the applicable interpretation of tax regulation. The Group recognizes current income tax expense on the basis of the amount expected to be paid to the tax authorities.

Deferred income tax is recognized in an estimated tax effect to be recovered or settled for the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not recognized if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable.

### **2.17 Employee Benefits**

The Group operates both defined contribution and defined benefit pension plans.

Under the defined contribution plan that the Group pays the fixed amount of contribution to separate fund, the contribution is expensed when the employees renders the employment service.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur.

## **2.18 Revenue Recognition**

### 1) Identification of Performance Obligation

The Group mainly manufactures and sells electrical equipment, wind power generation facilities, and construction. In accordance with Korean IFRS 1115, the Group identifies the performance obligation distinct from the customer contracts and the recognition timing of revenue may change whether each performance obligation satisfies over time or satisfies at a point in time.

### 2) A performance obligation is satisfied over time

In accordance with Korean IFRS 1115, the revenue is recognized over time by measuring progress only if the Group's performance creates or enhances an assets that the customer controls as the assets is created or enhanced or the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

### 3) Incremental costs of obtaining a contract

In accordance with Korean IFRS 1115, the Group recognizes the incremental costs of obtaining a contract with customer as an asset if the Group expects to recover those costs. Incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained is recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

### 4) Variable consideration

The Group estimates an amount of variable consideration by using the expected value which the Group expects to better predict the amount of consideration. The Group recognize revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the refund period has lapsed. The refund liability is measured at the amount of consideration received for which the Group does not expect to be entitled.

### 5) Significant financial elements

With implementation of Korean IFRS 1115, when calculating the transaction price, the Group should recognize the revenue as an amount that reflects the price of the good or the service customer paid in cash, if the customer or the Group has a significant financial benefit when the goods or services are transferred due to the agreed payment date between contracting parties.

### **2.19 Non-current Assets Held for Sale (or Disposal Group)**

Non-current assets (or disposal group) if its carrying amount will be recovered principally through a sale to the highly probable is classified as for held for sale assets and measured at the lower of its carrying amount and fair value.

### **2.20 Approval of Consolidated financial statements**

The consolidated financial statements for the year ended December 31, 2018 were authorized by the Board of Directors on February 19, 2019 and are subject to change with approval of shareholders at their Annual General Meeting.

## **3. Critical Accounting Estimates and Assumptions**

The Group makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (1) Goodwill impairment

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations (Note 18).

#### (2) Income taxes

As the Group's taxable income are subject to income taxes based on tax laws and interpretations of tax authorities, there are many transactions and calculations for which the ultimate tax determination is uncertain (Note 24).

If certain portion of the taxable income is not used for three years from 2015 for investments or increase in wages or dividends in accordance with the Tax System for Recirculation of Corporate Income, the Group is liable to pay additional income tax calculated based on the tax laws. As the measurement of current and deferred income tax is affected by the tax effects from the new tax system, the Group's income tax is dependent on the investments, increase in wages and dividends. Therefore, there is an uncertainty measuring the final tax effects.

#### (3) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

(4) Provisions

The Group recognizes provisions for warranties and others. These provisions are estimated based on past experience (Note 25).

(5) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 23).

**4. Financial Risk Management**

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

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

**4.1.1 Market Risk**

(1) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from foreign currency exposures, primarily with respect to the US dollar, Euro and Russian ruble. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

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

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

The table below summarizes the impact of weakened/strengthened Korean won on the Group's pre-tax profit for the years ended December 31, 2018 and 2017. The analysis is based on the assumption that Korean won has weakened/strengthened by 10% with all other variables held constant.

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		<b>Impact on pre-tax profit</b>			
		<b>2018</b>		<b>2017</b>	
US Dollar	Strengthened	₩	(8,171)	₩	(109,678)
	Weakened		8,171		109,678
EURO	Strengthened		755		(23,178)
	Weakened		(755)		23,178
JPY	Strengthened		(57)		(2,794)
	Weakened		57		2,794
Others	Strengthened		287		2,637
	Weakened		(287)		(2,637)

(2) Price Risk

The Group is exposed to equity securities price risk arises from investment held by the Group that are classified as financial assets measured at FVOCI in separate statement of financial position.

The Group's equity investments are publicly traded and are included in the KOSPI index.

The table below summarizes the impact of increases/decreases of the stock price on the Group's equity for the years ended December 31, 2018 and 2017. The analysis is based on the assumption that the stock price has increased/decreased by 30% with all other variables held constant.

(In millions of Korean won)

		<b>Impact on equity</b>			
		<b>2018</b>		<b>2017</b>	
Increase	₩	4,691	₩	42,692	
Decrease		(4,691)		(42,692)	

(3) Interest risk

Interest rate risk is defined as the risk that the interest income or expenses arising from deposits and borrowings will fluctuate because of changes in future market interest rate. The interest rate risk mainly arises through floating rate deposits and borrowings. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty in interest rates fluctuations and net interest expense.

The Group is exposed to interest rate risk due to its borrowings in fixed and floating interest rates. The Group's policy is to review on interest rate fluctuation periodically so that they can manage whether to repay or renew the borrowings.

The table below summarizes the impact of increases/decreases of interest rate on the Group's pre-tax profit for the years ended December 31, 2018 and 2017. The analysis is based on the assumption that the interest rate has increased/decreased by 100 basis points with all other variables held constant.

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	Impact on pre-tax profit			
	2018		2017	
Increase	₩	(6,455)	₩	(28,717)
Decrease		6,455		28,717

**4.1.2 Credit Risk**

Credit risk is managed on a corporate entity level. Credit risk arises from cash and cash equivalents, financial assets and outstanding receivables, etc. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Group assesses the credit risk based on the credit quality of the customer, considering its financial position, past experience and other factors. The compliance with credit limits is monitored on a regular basis (Note 11).

The maximum exposures to credit risk as at December 31, 2018 and 2017 are as follows:

(In millions of Korean won)

	2018		2017	
		₩		₩
Cash and cash equivalents(*1)		287,225		494,621
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
Long-term trade and other receivables		54,216		313,040
Other financial business assets		1,958,459		2,240,413
Other non-current financial assets		447,329		580,452

(\*1): The difference with 'cash and cash equivalents' in the statement of consolidated financial position is cash on hand.

The maximum exposure to credit risk related to guarantees provided to the subsidiaries and associates, except above, is equal to the maximum guarantee amounts (Note 38).

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**4.1.3 Liquidity Risk**

The Group monitors the forecasts on the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing limits at all times so that the Group does not breach borrowing limits or covenants (where applicable). The Group considers short, mid and long-term financial plan, compliance on commitment and target financial ratio on liquidity forecast.

Details of the Group's liquidity risk analysis as at December 31, 2018 and 2017 are as follows:

(In millions of Korean won)

	2018			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	₩ 468,842	₩ 222,440	₩ 1,567	₩ 692,849
Borrowings (including interest expense)	1,639,024	1,018,799	587	2,658,410
Derivative financial instruments(*1)	200	-	-	200
	<u>₩ 2,108,066</u>	<u>₩ 1,241,239</u>	<u>₩ 2,154</u>	<u>₩ 3,351,459</u>

(In millions of Korean won)

	2017			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	₩ 2,071,812	₩ 407,220	₩ 14,062	₩ 2,493,094
Borrowings (including interest expense)	5,064,704	2,475,020	19,972	7,559,696
Derivative financial instruments(*1)	4,681	-	-	4,681
	<u>₩ 7,141,197</u>	<u>₩ 2,882,240</u>	<u>₩ 34,034</u>	<u>₩ 10,057,471</u>

(\*1): The Group's trading portfolio derivative instruments have been included at their fair value of KRW 200 million (2017: KRW 4,681 million) within the less than 1-year time bucket. This is because the contractual maturities are not essential for an understanding of the timing of the cash flows. These contracts are managed on a net fair value basis rather than by maturity date.

Except above contracts, the Group has entered into payment guarantee contracts and supplementary fund contracts with subsidiaries. Therefore, if the principal debtor fails to meet its obligation to pay, there may be an additional obligation to pay within one year (Note 38).

The Group is required to be repaid immediately on some borrowings and project financing guarantees if the Group's credit rating falls below a certain level. The Group believes that the possibility of such an event is unlikely.

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**4.2 Capital Risk Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so the Group can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

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

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

The gearing ratios at December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)	
	2018	2017
Total borrowings	₩ 2,514,368	₩ 7,262,086
Less: cash and cash equivalents	(341,208)	(501,133)
Net debt (A)	2,173,160	6,760,953
Total equity (B)	2,702,147	3,863,282
Total capital (A+B=C)	₩ 4,875,307	₩ 10,624,235
Gearing ratio (A/C)	44.57%	63.64%

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**5. Fair Value of Financial Instrument**

(1) Fair Value Hierarchy

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

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

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value disclosed as at December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018			
	Level 1	Level 2 (*1)	Level 3	Total
<b>Asset</b>				
Financial asset measured at FVPL (*1)	₩ 1,770	₩ -	₩ 302,289	₩ 304,059
Financial asset measured at FVOCI (*2)	18,537	-	32,688	51,225
Derivative assets	-	21	-	21
Long-term financial assets	-	-	600	600
	<u>₩ 20,307</u>	<u>₩ 21</u>	<u>₩ 335,577</u>	<u>₩ 355,905</u>
<b>Liability</b>				
Derivative liabilities	₩ -	₩ 200	₩ -	₩ 200
	<u>₩ -</u>	<u>₩ 200</u>	<u>₩ -</u>	<u>₩ 200</u>
	(In millions of Korean won)			
	2017			
	Level 1	Level 2 (*1)	Level 3	Total
<b>Asset</b>				
Available-for-sale financial assets	₩ 187,417	₩ -	₩ 225,102	₩ 412,519
Derivative assets	-	19,684	3,731	23,415
Other financial assets	-	30,080	1,000	31,080
	<u>₩ 187,417</u>	<u>₩ 49,764</u>	<u>₩ 229,833</u>	<u>₩ 467,014</u>
<b>Liability</b>				
Derivative liabilities	₩ -	₩ 4,681	₩ -	₩ 4,681
	<u>₩ -</u>	<u>₩ 4,681</u>	<u>₩ -</u>	<u>₩ 4,681</u>

(\*1): The Group has adopted the market approach for the derivative instrument assets and liabilities classified to level 2 in the fair value hierarchy and used foreign exchange rate as its input variables.

(\*2): The Group has adopted discounted cash flow model or comparable method or risk-adjusted discount rate model and etc., key inputs are discount rate and growth rate.

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(2) Transfers between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

There were no transfers between fair value hierarchy levels of recurring fair value measurements.

(3) Valuation Techniques and the Inputs

Valuation techniques and inputs used in levels 2 and level 3 are as follows:

		2018				
		Fair value (in millions of Korean won)	Level	Valuation techniques	Inputs	Range of Inputs
<b>Other Non-current financial assets</b>						
Financial asset measured at FVOCI	₩	32,688	3	DCF method and others	Discount rate Growth rate	10.1%~12.1% 1%~3%
Financial asset measured at FVPL		302,289	3	DCF method and others Risk-adjusted discount rate model	Discount rate Growth rate	7.26%~14.55% 1%
<b>Derivative</b>						
Derivative assets	₩	21	2	Market approach	Exchange rate and discount rate	N/A
Derivative liabilities		200	2	Market approach	Exchange rate and discount rate	N/A

(4) Details of Changes in Recurring Fair Value Measurements Categorized within Level 3

1) Financial assets measured at fair value through other comprehensive income

	2018
Beginning balance	₩ -
Change in accounting policy	34,891
Acquisition (Disposal)	38
Other comprehensive income	(2,159)
Others	4
Movement from spin-off	(86)
Ending balance	₩ 32,688

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2) Financial assets measured at fair value through profit or loss

	<u>2018</u>	
Beginning balance	₩	-
Change in accounting policy		259,287
Acquisition (Disposal)		41,341
Other comprehensive income		(87)
Others		6,894
Movement from spin-off		(5,146)
Ending balance	₩	<u>302,289</u>

3) Available-for-sales financial assets

	<u>2018</u>	
Beginning balance	₩	179,602
Acquisition (Disposal)		60,992
Other comprehensive income		(10,777)
Others		(4,715)
Ending balance	₩	<u>225,102</u>

4) Derivative instruments

	<u>2018</u>		<u>2017</u>	
Beginning balance	₩	3,731	₩	875
Change in accounting policy (*1)		(3,731)		-
Acquisition (Disposal)		-		(875)
Others		-		3,731
Ending balance	₩	<u>-</u>	₩	<u>3,731</u>

(\*1): Due to the changes in accounting policy, redeemable convertible preferred stock for Kumho Holdings (KRW 3,731 million) that was classified to derivative instrument as at December 31, 2017 has been reclassified to financial assets measured at fair value through profit or loss as at December 31, 2018.

(5) Valuation Processes for Fair Value Measurements Categorized Within Level 3

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

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**6. Reporting on Segment**

(1) Operating segment information

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

The Group's operating segment information for the years ended and as at December 31, 2018 and 2017 is as follows:

	(In millions of Korean won)						
	2018						
	Finance	Information Communication	Pump manufacturing	Imported car dealer	Others	Consolidati on adjustment	Total
Total revenue	₩ 202,908	₩ 875,470	₩ 213,208	₩ 238,551	₩ 1,637,878	₩ -	₩ 3,168,015
Inter-segment revenue	-	(118,624)	-	-	(34,240)	(24,145)	(177,009)
	202,908	756,846	213,208	238,551	1,603,638	-24,145	2,991,006
Operating income(loss)	₩ 33,345	₩ 54,914	₩ 5,585	₩ 1,394	₩ 55,426	₩ (7,181)	₩ 143,483
Depreciation and amortization	1,072	2,560	146	1,628	11,949	-	17,355

	(In millions of Korean won)						
	2017						
	Finance	Information Communication	Pump manufacturing	Imported car dealer	Others	Consolidati on adjustment	Total
Total revenue	₩ 222,286	₩ 662,018	₩ 250,705	₩ 293,161	₩ 1,362,750	₩ -	₩ 2,790,920
Inter-segment revenue	-	(75,636)	-	-	(13,127)	(9,309)	(98,072)
	222,286	586,382	250,705	293,161	1,349,623	-9,309	2,692,848
Operating income(loss)	₩ 30,869	₩ 21,958	₩ 1,260	₩ 5,574	₩ (16,539)	₩ (7,198)	₩ 35,924
Depreciation and amortization	1,762	2,871	175	1,717	10,766	-	17,291

(2) Geographical segment information

Geographical segment information of revenue for the years ended December 31, 2018 and 2017 is as follows:

	(In millions of Korean won)	
	2018	2017
Republic of Korea	₩ 1,788,968	₩ 1,699,552
North and Central America	1,023,333	898,478
Asia	31,665	39,681
Europe	146,966	55,136
Others	74	-
	₩ 2,991,006	₩ 2,692,848

(3) There is no external customer, who contribute more than 10% of the Group's revenue for the years ended December 31, 2018 and 2017.

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**7. Transfer of Financial Assets**

Under factoring arrangement, the Group sells trade receivables at a discount to the financial institutions for the year ended December 31, 2018. The Group may retain an obligation to compensate a financial institution for debtors' failure to make payment when they become due, an obligation known as a 'recourse obligation'. Recourse obligations related to the sales of receivables with recourse are accounted for as collateralized borrowings (Notes 11, 22 and 38).

Details of transferred financial assets that are not derecognized in their entirety as at December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Carrying amount of assets	₩	90,981	₩	672,846
Carrying amount of the associated liabilities		(90,981)		(690,626)
Net position		-		(17,780)

**8. Financial Instruments by Category**

(1) Carrying Amounts of Financial Instruments by Category

Carrying amounts of financial assets and liabilities by category as at December 31, 2018 and 2017 are as follows:

1) FY2018

	(In millions of Korean won)							
	2018							
	Derivative measured at fair value through profit or loss	Equity securities measured at fair value through profit or loss	Equity securities measured at fair value through other comprehensive income	Financial assets measured at amortized cost	Total			
Cash and cash equivalents	₩ -	₩ -	₩ -	341,208	₩	341,208		
Trade and other receivables	-	-	-	464,296	₩	464,296		
Due from customers for contract work	-	-	-	382	₩	382		
Other financial assets	-	-	-	10,274	₩	10,274		
Long-term trade and other receivables	-	-	-	54,216	₩	54,216		
Other financial business assets	-	-	-	1,958,459	₩	1,958,459		
Other non-current financial assets	21	304,059	51,225	92,025	₩	447,330		
	₩ 21	₩ 304,059	₩ 51,225	₩ 2,920,860	₩	₩ 3,276,165		

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(In millions of Korean won)

	2018				Total
	Derivative measured at fair value through profit or loss	Equity securities measured at fair value through profit or loss	Equity securities measured at fair value through other comprehensive income	Financial liabilities measured at amortized cost	
Trade and other payables	₩ -	₩ -	₩ -	₩ 471,129	₩ 471,129
Borrowings	-	-	-	1,571,441	1,571,441
Other financial liabilities	161	-	-	-	161
Long-term trade and other payables	-	-	-	220,786	220,786
Long-term borrowings	-	-	-	942,926	942,926
Other non-current financial liabilities	39	-	-	-	39
	<u>₩ 200</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 3,206,282</u>	<u>₩ 3,206,482</u>

2) FY2017

(In millions of Korean won)

	2017			
	Loan and receivables	Available-for- sale assets	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	₩ 501,133	₩ -	₩ -	₩ 501,133
Trade and other receivables	2,013,676	-	-	2,013,676
Due from customers for contract work	140,355	-	-	140,355
Other financial assets	64,671	-	18,305	82,976
Long-term trade and other receivables	313,040	-	-	313,040
Other financial business assets	2,240,413	-	-	2,240,413
Other non-current financial assets	97,743	477,598	5,111	580,452
	<u>₩ 5,371,031</u>	<u>₩ 477,598</u>	<u>₩ 23,416</u>	<u>₩ 5,872,045</u>

(In millions of Korean won)

	2017			
	Financial liabilities measured at amortized cost	Other financial liabilities(*1)	Financial liabilities at fair value through profit or loss	Total
Trade and other payables	₩ 2,071,568	₩ 2,224	₩ -	₩ 2,073,792
Borrowings	4,226,371	690,626	-	4,916,997
Other financial liabilities	-	-	4,088	4,088
Long-term trade and other payables	400,492	-	-	400,492
Long-term borrowings	2,345,089	-	-	2,345,089
Other Non-current financial liabilities	-	-	593	593
	<u>₩ 9,043,520</u>	<u>₩ 692,850</u>	<u>₩ 4,681</u>	<u>₩ 9,741,051</u>

(\*1): Other financial liabilities include financial liabilities that are not subject to the categorizations such as financial liabilities.

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(2) Net Gains or Losses by Category of Financial Instruments

Net gains or losses on each category of financial instruments for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean won)

	2018				
	Gain(Loss)	Other comprehensive income	Reclassification	Interest income (expense)	Total
<b>Financial assets</b>					
Financial assets measured at amortized cost	₩ (10,740)	₩ -	₩ -	₩ 4,543	₩ (6,197)
Financial asset measured at FVPL	(221)	-	-		(221)
Financial asset measured at FVOCI	449	(124,537)	-	29	(124,050)
<b>Financial liabilities</b>					
Financial liabilities measured at amortized cost	(20,652)	-	-	(100,742)	(121,394)
<b>Derivative assets and liabilities</b>	9,536	-	-	-	9,536

(In millions of Korean won)

	2017				
	Gain(Loss)	Other comprehensive income	Reclassification	Interest income (expense)	Total
<b>Financial assets</b>					
Loans and receivables	₩ (190,376)	₩ -	₩ -	₩ 4,535	₩ (185,841)
Available-for-sale assets	(16,630)	(38,534)	795	22	(54,347)
<b>Financial liabilities</b>					
Financial liabilities measured at amortized cost	132,914	-	-	(167,022)	(34,108)
Other financial liabilities(*2)	-	-	-	(8,359)	(8,359)
<b>Derivative assets and liabilities</b>	56,383	-	-	-	56,383

(\*1): Transfer between profit and loss accounts is the other comprehensive income that was reclassified to profit or loss of the period.

(\*2): Other financial liabilities include transfer transactions not qualified for derecognition, financial payment guarantees and others that are not subject to the categorizations.

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**9. Cash and Cash Equivalents**

Cash and cash equivalents as at December 31, 2018 and 2017 consist of the followings:

	(In millions of Korean won)			
	<u>2018</u>		<u>2017</u>	
Cash on hand	₩	53,983	₩	6,512
Bank deposits		287,225		494,621
	₩	<u>341,208</u>	₩	<u>501,133</u>

**10. Restricted Financial Instruments**

Restricted financial instruments as at December 31, 2018 and 2017 are as follows:

	<u>Details</u>	(In millions of Korean won)	
		<u>2018</u>	<u>2017</u>
Cash and cash equivalents	Pledge for borrowings and others	₩ -	₩ 3,766
	Others	748	9,172
Other current financial assets	Restricted for checking account and lease deposits received	5,000	-
Other non-current financial assets	Restricted for checking account and lease deposits received	3,628	8,051
	Pledge for borrowings and others	10,212	4,401
		₩ <u>19,588</u>	₩ <u>25,390</u>

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**11. Trade and Other Receivables**

(1) Details of trade and other receivables as at December 31, 2018 and 2017 are as follows:

	2018		
	Receivable amount	Provision for impairment	Carrying amount
Trade receivables	₩ 402,334	₩ (30,119)	₩ 372,215
Other receivables	94,060	(1,979)	92,081
Long-term trade receivables	-	-	-
Long-term other receivables	54,216	-	54,216
	<u>₩ 550,610</u>	<u>₩ (32,098)</u>	<u>₩ 518,512</u>

(In millions of Korean Won)

	2017		
	Receivable amount	Provision for impairment	Carrying amount
Trade receivables	₩ 1,839,840	₩ (72,485)	₩ 1,767,355
Other receivables	249,641	(3,320)	246,321
Long-term trade receivables	25,480	(10,727)	14,753
Long-term other receivables	417,035	(118,748)	298,287
	<u>₩ 2,531,996</u>	<u>₩ (205,280)</u>	<u>₩ 2,326,716</u>

The Group has transferred trade receivables to the financial institutions to a bank in exchange for cash. The outstanding balances that have not been collected as at December 31, 2018 is KRW 90,981 million (2017: KRW 672,846 million). The Group may retain an obligation to compensate a bank for debtors' failure to make payment when they become due; therefore, the transaction has been accounted for as a collateralized borrowing (Notes 7, 22 and 38).

(2) Details of other receivables as at December 31, 2018 and 2017 are as follows:

	(In millions of Korean Won)	
	2018	2017
<b>Other receivables</b>		
Non-trade receivables	₩ 71,874	₩ 189,690
Short-term loans	10,151	11,624
Accrued income	8,796	10,368
Deposits provided	1,260	34,639
	<u>₩ 92,081</u>	<u>₩ 246,321</u>
<b>Long-term other receivables</b>		
Long-term non-trade receivables	₩ -	₩ 2,294
Long-term loans (Note 38)	5,503	112,250
Deposits provided	48,713	183,743
	<u>54,216</u>	<u>298,287</u>
	<u>₩ 146,297</u>	<u>₩ 544,608</u>

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- (3) The fair value of long-term trade and other receivables were measured by discounting the nominal amounts of future cash inflow with the discount rates reflecting the credit risk.

	2018	2017
Discount rate	1.60% ~ 2.50%	1.60% ~ 7.10%

- (4) The aging analysis of trade and other receivables as at December 31, 2018 and 2017 are follows:

(In millions of Korean Won)

	2018						
	Past due but not impaired	Receivables not past due				Impaired receivables	Total
		Up to 3 months	4 to 6 months	7 to 12 months	Over 12 months		
Trade receivables	₩ 310,707	₩ 30,249	₩ 10,201	₩ 7,156	₩ 15,065	₩ 28,956	₩ 402,334
Other receivables	91,349	286	7	11	117	2,291	94,061
Long-term trade receivables	-	-	-	-	-	-	-
Long-term other receivables	55,241	-	-	-	-	-	55,241
	<u>₩ 457,297</u>	<u>₩ 30,535</u>	<u>₩ 10,208</u>	<u>₩ 7,167</u>	<u>₩ 15,182</u>	<u>₩ 31,247</u>	<u>₩ 551,636</u>

(In millions of Korean Won)

	2017						
	Past due but not impaired	Receivables not past due				Impaired receivables	Total
		Up to 3 month	4 to 6 months	7 to 12 months	Over 12 month		
Trade receivables	₩ 1,368,446	₩ 245,126	₩ 54,788	₩ 47,954	₩ 75,331	₩ 48,195	₩ 1,839,840
Other receivables	236,788	1,841	1,080	2,368	3,448	4,116	249,641
Long-term trade receivables	4,274	-	-	-	-	21,446	25,720
Long-term other receivables	213,253	382	-	-	14	204,929	418,578
	<u>₩ 1,822,761</u>	<u>₩ 247,349</u>	<u>₩ 55,868</u>	<u>₩ 50,322</u>	<u>₩ 78,793</u>	<u>₩ 278,686</u>	<u>₩ 2,533,779</u>

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

- (5) Individually impaired receivables mainly relate to customers that are experiencing unexpected economic difficulties. The Group expects that a portion of their receivables will be recovered. If the Group determines that no objective evidence of impairment exists for an individually assessed receivables, those will be collectively assessed for impairment.

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- (6) Movements on the provisions for impairment of receivables for the years ended December 31, 2018 and 2017 are follows:

(In millions of Korean Won)

	2018						
	Beginning	Provision for impairment	Reversal	Changes in scope of consolidation	Others	Movement from Spin-off	Ending
Trade and long-term trade receivables	₩ 83,212	₩ 478	₩ -	₩ (1,236)	₩ 10,155	₩ (62,490)	₩ 30,119
Other receivables and long-term other	122,068	(359)	(745)	-	43,260	(162,246)	1,978
	<u>₩ 205,280</u>	<u>₩ 119</u>	<u>₩ (745)</u>	<u>₩ (1,236)</u>	<u>₩ 53,415</u>	<u>₩ (224,736)</u>	<u>₩ 32,097</u>

(In millions of Korean Won)

	2017					
	Beginning	Provision for impairment	Reversal	Changes in scope of consolidation	Others	Ending
Trade and long-term trade receivables	₩ 59,867	₩ 38,551	₩ -	₩ 17	₩ (15,223)	₩ 83,212
Other receivables and long-term other	64,820	82,360	(941)	(596)	(23,575)	122,068
	<u>₩ 124,687</u>	<u>₩ 120,911</u>	<u>₩ (941)</u>	<u>₩ (579)</u>	<u>₩ (38,798)</u>	<u>₩ 205,280</u>

- (7) Provision provided and reversed for impaired trade receivables have been included in selling and administrative expenses (Note 32) and the provision provided and reversed for the other receivables have been included in other income and other expense (Note 33). The Group writes off the provision that is not expected to recover an additional cash.

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**12. Other Financial Assets and Liabilities**

(1) Other financial assets and liabilities as at December 31, 2018 and 2017 are as follows:

	(In millions of Korean Won)	
	<u>2018</u>	<u>2017</u>
<b>Other financial assets</b>		
Loans and receivables	₩ -	₩ 162,415
Financial assets measured at amortized cost	102,299	-
Available-for-sale financial assets	-	477,598
Financial assets measured at fair value through other comprehensive income	51,225	-
Financial assets measured at fair value through profit or loss	304,059	-
Derivative assets	21	23,415
	<u>457,604</u>	<u>663,428</u>
Less: current portion	<u>(10,274)</u>	<u>(82,976)</u>
	<u>447,330</u>	<u>580,452</u>
<b>Other financial liabilities</b>		
Derivative liabilities	200	4,681
Less: current portion	(161)	(4,088)
	<u>₩ 39</u>	<u>₩ 593</u>

(2) Details of other financial assets measured at amortized costs as at December 31, 2018 and loans and receivables as at December 31, 2017 are as follows:

	(In millions of Korean Won)	
	<u>2018</u>	<u>2017</u>
Short-term financial instruments	₩ 10,274	₩ 64,672
Long-term financial instruments	92,025	97,743
	<u>₩ 102,299</u>	<u>₩ 162,415</u>

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- (3) Details of financial assets measured at fair value through profit or loss and other comprehensive income as at December 31, 2018 are as follows:

<Financial assets measured at fair value through profit or loss>

	(In millions of Korean Won)	
	<b>2018</b>	
Listed stock	₩	1,770
Non-listed stock		28,631
Investment in capital		196,128
Beneficiary certificate fund		64,136
Others		13,394
	₩	<u>304,059</u>

<Financial assets measured at fair value through other comprehensive income>

	(In millions of Korean Won)	
	<b>2018</b>	
Listed stock	₩	18,537
Non-listed stock		10,304
Investment in capital		21,226
Government bond		1,158
	₩	<u>51,225</u>

- (4) Details of available-for-sales financial assets as at December 31, 2017 are as follows:

	(In millions of Korean Won)	
	<b>2017</b>	
Listed stock	₩	187,417
Non-listed stock		38,228
Investment in capital		214,471
Beneficiary certificate fund		36,372
Others		1,110
	₩	<u>477,598</u>

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- (5) Equity securities in which the Group has more than 20% of ownership but are not significantly influenced by the Group as at December 31, 2018 and 2017 are as follows:

		(In millions of Korean Won)			
			2018	2017	
	Company	Percentage of ownership (%)	Acquisition cost	Carrying amount	Carrying amount
			₩	₩	₩
Listed stock	Chin Hung International Co.(*1)	-	-	-	135,141
Non-listed stock	Oksan Ochang Highway Co.(*2)	30.00	14,970	12,422	14,970
			<u>₩</u>	<u>₩</u>	<u>₩</u>
			14,970	12,422	150,111

(\*1): The Group held 48.17% of total interest of Chin Hung International Inc. as at December 31, 2017. However, the Company lost the significant influence over Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. Therefore, the shares have been classified as other financial assets accordingly. In the meanwhile, the Group does not hold any shares of Chin Hung International Inc. as at December 31, 2018 as a result of the spin-off.

(\*2): The Group holds 30% of Oksan Ochang Highway Corporation. However, the Group does not have significant influence over the financial and operational decision that have been controlled by the government. Therefore, the shares have been classified as other financial assets.

- (6) Changes in financial assets measured at fair value through profit or loss and other comprehensive income and available-for-sales financial assets for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean Won)			
	2018	2017		
	₩	₩	₩	
Beginning balance	477,598	470,603		
Change in accounting policy	3,996	-		
Acquisitions(*1)	374,696	146,025		
Disposals	(65,979)	(75,130)		
Impairment loss on available-for-sale financial assets	-	(17,053)		
Valuation				
Financial assets measured at fair value through other comprehensive income	(124,537)	(38,534)		
Financial assets measured at fair value through profit or loss	(379)	-		
Net gains (losses) reclassified from equity	-	(8,305)		
Spin-off	(201,235)	-		
Transfer	(108,880)	-		
Others	4	(8)		
Ending balance	<u>₩</u>	<u>₩</u>	<u>₩</u>	
	355,284	477,598		

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(7) Details of derivative financial assets and liabilities as at December 31, 2018 and 2017 are as follows:

		(In millions of Korean Won)	
		2018	
		Derivative assets	Derivative liabilities
<b>Current</b>			
Currency forward exchange contracts	₩	-	₩ 161
Instruments forward contracts currency wwap		-	-
Others		-	-
Sub-total		-	161
<b>Non-current</b>			
Currency forward exchange contracts		21	39
Currency Swap		-	-
Others		-	-
Sub-total		21	39
Total	₩	21	₩ 200

		(In millions of Korean Won)	
		2017	
		Derivative assets	Derivative liabilities
<b>Current</b>			
Currency forward exchange contracts	₩	18,246	₩ 4,088
Instruments forward contracts currency wwap		59	-
Others		-	-
Sub-total		18,305	4,088
<b>Non-current</b>			
Currency forward exchange contracts		1,272	-
Currency Swap		-	584
Others		3,838	9
Sub-total		5,110	593
Total	₩	23,415	₩ 4,681

**13. Other Financial Business Assets**

(1) Details of other financial business assets as at December 31, 2018 and 2017 are as follows:

		(In millions of Korean Won)	
		2018	2017
Loan measured at amortized costs	₩	1,917,725	₩ 2,207,668
Operating lease assets		40,734	32,745
	₩	1,958,459	₩ 2,240,413

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- (2) Details of financial assets measured at amortized costs as at December 31, 2018 and loans and receivables as at December 31, 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Receivables	₩ 1,959,652	₩ 2,252,472
Bad debt allowance	(41,927)	(44,804)
	<u>₩ 1,917,725</u>	<u>₩ 2,207,668</u>

- (3) Movements in bad debt allowance for other financial business assets for the year ended December 31, 2018 are as follows:

(In millions of Korean Won)

	<u>12 months</u>		<u>Lifetime</u>		<u>Total</u>
	<u>Expected credit loss</u>	<u>Loan receivable credit unimpaired</u>	<u>Loan receivable credit impaired</u>		
Beginning(*1)	₩ 9,646	₩ 4,422	₩ 58,067	₩ 72,135	
Transfer to whole period ECL	(516)	545	(29)	-	
Transfer to credit impaired financial assets	(594)	(2,244)	2,838	-	
Transfer to 12 months ECL	242	(238)	(4)	-	
Sub-total	8,778	2,485	60,872	72,135	
Impairment provision (reversal)	(4,234)	995	24,878	21,639	
Executed or purchased financial assets	4,261	821	879	5,961	
Bad debt	-	-	(65,523)	(65,523)	
Collection of amortized bonds	-	-	10,486	10,486	
Changes in currency exchange rate and etc.	-	-	(2,771)	(2,771)	
Ending	<u>₩ 8,805</u>	<u>₩ 4,301</u>	<u>₩ 28,821</u>	<u>₩ 41,927</u>	

(\*1): Beginning balance represents the balance reflecting the changes in accounting policy amounting to KRW 27,331 million.

- (4) Movements in bad debt allowance for other financial business assets for the year ended December 31, 2017 are as follows:

(In millions of Korean won)

	<u>2017</u>
Beginning balance	₩ 56,350
Less : Provision for impairment	50,753
Write-off	(68,354)
Others	6,055
Ending balance	<u>₩ 44,804</u>

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- (5) As at December 31, 2018, details of carrying amounts of impairment provision for financial assets measured at amortized costs depending on measurement methods are as follows:

(In millions of Korean won)

	2018			
	12 months expected credit losses	Lifetime expected credit losses - credit unimpaired	Lifetime expected credit losses - credit impaired	Total
Loans and receivables	₩ 1,738,131	₩ 108,272	₩ 112,451	₩ 1,958,854

- (6) The aging analysis of loans and receivables as at December 31, 2017 are as follows:

(In millions of Korean won)

	2017			Total
	Receivables not past due	Past due but not impaired	Impaired	
Loans and receivables	₩ 2,060,754	₩ 43,434	₩ 145,494	₩ 2,249,682

The above-mentioned amounts represent the amounts before reflecting present value and impairment.

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**14. Other Assets**

Details of other assets as at December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

	<u>Current</u>		<u>Non-current</u>	
<b>Other current assets</b>				
Advance payments	₩	24,923	₩	142,841
Allowance for bad debts		-		(290)
Prepaid expenses		23,153		46,490
Other		-		1,538
	₩	<u>48,076</u>	₩	<u>190,579</u>
<b>Other non-current assets</b>				
Advance payments	₩	3,162	₩	7,225
Prepaid expenses		998		23,943
Other investment assets		34,075		34,518
	₩	<u>38,235</u>	₩	<u>65,686</u>
Total	₩	<u>86,311</u>	₩	<u>256,265</u>

**15. Inventory**

Details of inventories as at December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

	2018		
	<u>Acquisition cost</u>	<u>Allowance</u>	<u>Carrying amount</u>
Merchandise	₩ 286,203	₩ (2,343)	₩ 283,860
Finished goods	92,163	(7,088)	85,075
Semi-finished goods	17,589	(370)	17,219
Work in process	23,278	-	23,278
Comingled goods	-	-	-
Raw materials	32,953	(1,116)	31,837
Sub-materials	4,580	(20)	4,560
Supplies	3,263	-	3,263
Packing	87	(3)	84
Goods in transit	49,250	-	49,250
Cost accrued on construction contracts	-	-	-
Temporary installations	-	-	-
Land	-	-	-
	₩ <u>509,366</u>	₩ <u>(10,940)</u>	₩ <u>498,426</u>

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	2017		
	Acquisition cost	Allowance	Carrying amount
Merchandise	₩ 320,708	₩ (2,532)	₩ 318,176
Finished goods	614,995	(43,057)	571,938
Semi-finished goods	188,074	(8,018)	180,056
Work in process	91,461	(605)	90,856
Comingled goods	22	-	22
Raw materials	265,671	(8,257)	257,414
Sub-materials	53,350	(2,001)	51,349
Supplies	14,032	(556)	13,476
Packing	8,778	(235)	8,543
Goods in transit	179,189	-	179,189
Cost accrued on construction contracts	6,030	-	6,030
Temporary installations	65	-	65
Land	4,920	(2,101)	2,819
	<u>₩ 1,747,295</u>	<u>₩ (67,362)</u>	<u>₩ 1,679,933</u>

Inventories recognized as cost of sales for the year ended December 31, 2018 amounted to KRW 1,775,686 million (2017: KRW 1,733,169 million). In the meanwhile, the Group recognized the inventory allowance loss amounting to KRW 193 million as cost of sales for the year ended December 31, 2018 (2017: KRW 1,953 million as the reversal of inventory allowance).

**16. Property, Plants and Equipment**

(1) Details of property, plant and equipment as at December 31, 2018 and 2017 are as follows:

	2018		
	Acquisition cost	Accumulated depreciation (*1)	Carrying amount
Land	₩ 491,159	₩ -	₩ 491,159
Building	326,046	(52,965)	273,081
Structures	20,833	(8,113)	12,720
Machinery	346,577	(278,384)	68,193
Vehicles	6,928	(4,825)	2,103
Tool and equipment	264,789	(189,148)	75,641
Others	1,318	(919)	399
Construction in progress	24,625	-	24,625
Machinery in transit	54	-	54
	<u>₩ 1,482,329</u>	<u>₩ (534,354)</u>	<u>₩ 947,975</u>

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	2017		
	Acquisition cost	Accumulated depreciation (*1)	Carrying amount
Land	₩ 1,570,058	₩ -	₩ 1,570,058
Building	1,744,262	(484,532)	1,259,730
Structures	374,894	(107,572)	267,322
Machinery	6,522,950	(4,515,089)	2,007,861
Vehicles	48,356	(36,695)	11,661
Tool and equipment	600,403	(449,293)	151,110
Others	164,322	(61,989)	102,333
Construction in progress	282,303	-	282,303
Machinery in transit	10,798	-	10,798
	<u>₩ 11,318,346</u>	<u>₩ (5,655,170)</u>	<u>₩ 5,663,176</u>

(\*1): Accumulated impairment losses are included.

(2) Changes in property, plant and equipment for the years ended December 31, 2018 and 2017 are as follows:

	2018										
	Beginning	Acquisition	Disposal	Depreciation and others	Impairment loss	Transfer (*1)	Government grants received	Others (Foreign exchange)	Change in consolidation scope	Movement from spin-off	Ending
Land	₩ 1,570,058	₩ 16,226	₩ (567)	₩ -	₩ -	₩ 22,192	₩ (1,090)	₩ (286)	₩ -	₩ (1,115,374)	₩ 491,159
Building	1,259,730	7,184	(1,483)	(28,167)	-	75,168	(229)	6,959	(3,882)	(1,042,198)	273,081
Structures	267,322	916	(301)	(4,943)	-	7,155	(55)	677	-	(258,050)	12,720
Machinery	2,007,861	18,713	(2,037)	(202,187)	-	247,029	(1,859)	14,923	(386)	(2,013,863)	68,193
Vehicles	11,661	1,173	(31)	(2,282)	-	642	(5)	45	(16)	(9,084)	2,103
Tool and equipment	151,110	27,754	(4,727)	(35,789)	-	13,472	(120)	665	(82)	(76,643)	75,641
Others	102,333	923	(645)	(1,369)	-	(126)	-	127	-	(100,844)	399
Construction in progress	282,303	250,441	(112)	-	-	(279,207)	-	4,133	-	(232,934)	24,625
Machinery in transit	10,798	38,865	-	-	-	(46,622)	-	55	-	(3,042)	54
	<u>₩ 5,663,176</u>	<u>₩ 362,195</u>	<u>₩ (9,903)</u>	<u>₩ (274,737)</u>	<u>₩ -</u>	<u>₩ 39,703</u>	<u>₩ (3,358)</u>	<u>₩ 27,298</u>	<u>₩ (4,366)</u>	<u>₩ (4,852,032)</u>	<u>₩ 947,975</u>

	2017									
	Beginning	Acquisition	Disposal	Depreciation and others	Impairment loss	Transfer (*1)	Government grants received	Others (Foreign exchange)	Change in consolidation scope	Ending
Land	₩ 1,562,977	₩ 7,572	₩ (1,211)	₩ -	₩ -	₩ 5,673	₩ -	₩ (1,435)	₩ (3,518)	₩ 1,570,058
Building	1,094,566	4,785	(469)	(51,975)	-	255,563	(1,707)	(40,800)	(233)	1,259,730
Structures	257,823	1,964	(389)	(10,457)	(178)	22,601	-	(3,879)	(163)	267,322
Machinery	2,143,166	43,786	(557)	(467,507)	(80,415)	469,203	(1,585)	(97,143)	(1,087)	2,007,861
Vehicles	13,229	2,250	(625)	(4,596)	-	2,124	-	(648)	(73)	11,661
Tool and equipment	132,133	44,463	(3,543)	(49,964)	(1,824)	31,943	(113)	(1,997)	12	151,110
Others	134,847	3,799	(2,179)	(6,009)	(23,338)	(372)	-	(2,326)	(2,089)	102,333
Construction in progress	487,344	535,019	(8,997)	-	(827)	(717,635)	-	(12,601)	-	282,303
Machinery in transit	18,937	85,516	-	-	-	(92,560)	-	(1,095)	-	10,798
	<u>₩ 5,845,022</u>	<u>₩ 729,154</u>	<u>₩ (17,970)</u>	<u>₩ (590,508)</u>	<u>₩ (106,582)</u>	<u>₩ (23,460)</u>	<u>₩ (3,405)</u>	<u>₩ (161,924)</u>	<u>₩ (7,151)</u>	<u>₩ 5,663,176</u>

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(\*1): Amortized loss amounting to KRW 796 million and manufacturing supplies amounting to KRW 947 million for other tangible assets were included.

(\*2): The Group reviewed separate cash-generating units (hereafter 'CGU') to determine whether the property, plant and equipment were impaired since the Group had experienced the accumulated operating losses that could be an indicator for an impairment. It appeared that the net book amount of the tangible assets exceeded the recoverable amounts. Therefore, the Group recognized an impairment loss of POK Division for ₩ 27,593 million, Optical Film Segment for ₩ 8,695 million, Carbon Fiber Division for ₩ 36,125 million, Wellington Division for ₩ 23,338 million and Tire Reinforcements Eonyang Plant for ₩ 10,847 million. Impairment losses recognized by the Group include impairment losses of intangible assets of ₩ 72 million and included in other expenses in the income statement.

The recoverable amount of the CGU is determined based on the net fair value or value-in-use. The Group extrapolated the net fair values of each CGU based on best available information of price of assets. The price of assets would be the amount that can be received from the sale of assets in a transaction between independent parties with reasonable judgment and a willingness to trade, and from the price, disposal prices would be deducted. Value-in-use is determined by discounting estimated future cash flows when the Group uses the assets continuously. Value-in-use was calculated by discounting estimated future cash flows with an appropriate discount rate, and a valuation report from an independent external valuation agency was used.

(\*3): Transfers include transfer of construction in progress, transfer of machinery-in-transit and transfer from or to intangible assets.

- (3) Depreciation expenses are allocated to manufacturing cost (2018: KRW 248,771 million, 2017: KRW 552,699 million), selling and administrative expenses (2018: KRW 20,542 million, 2017: KRW 24,133 million) and research and development expenses (2018: KRW 7,522 million, 2017: 11,934 million), respectively.
- (4) The Group has capitalized borrowing costs amounting to KRW 1,523 million (2017: KRW 2,753 million) on qualifying assets for the year ended December 31, 2018. The capitalization rate of borrowings used to determine the amount of borrowing costs eligible for capitalization is 3.82~4.30 % (2017: 2.99~4.58%) for the year ended December 31, 2018.
- (5) Land, building and machineries are provided to the financial institutions as collaterals for borrowings (Notes 20 and 38).

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**17. Investment Properties**

(1) Details of investment properties as at December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

		2018		
		Acquisition cost	Accumulated depreciation(*1)	Carrying amount
Land	₩	66,162	-	₩ 66,162
Building		96,475	(16,994)	79,481
	₩	162,637	₩ (16,994)	₩ 145,643

(In millions of Korean Won)

		2017		
		Acquisition	Accumulated	Carrying
Land	₩	353,760	₩ (3,485)	₩ 350,275
Building		256,123	(56,182)	199,941
	₩	609,883	₩ (59,667)	₩ 550,216

(\*1): Accumulated impairment losses are included.

(2) Changes in investment properties for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

	2018			2017		
	Land	Building	Total	Land	Building	Total
Beginning balance	₩ 350,275	₩ 199,941	₩ 550,216	₩ 380,664	₩ 248,159	₩ 628,823
Acquisition	-	-	-	-	780	780
Disposals	-	(1)	(1)	(33,429)	(32,160)	(65,589)
Depreciation	-	(4,569)	(4,569)	-	(20,072)	(20,072)
Transfers, etc.	(22,787)	(26,754)	(49,541)	3,040	3,234	6,274
Spin-off effect	(261,326)	(89,136)	(350,462)	-	-	-
Ending balance	₩ 66,162	₩ 79,481	₩ 145,643	₩ 350,275	₩ 199,941	₩ 550,216

(3) During the year, rental income from investment property is KRW 34,299 million (2017: KRW 40,238 million) and rental expense including depreciation expense is KRW 11,419 million (2017: KRW 41,468 million).

(4) Fair value of investment properties as at December 31, 2018 is KRW 216,266 million (2017: KRW 695,271 million). The fair value was estimated based on the Land Value by Public Announcement.

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**18. Intangible Assets**

(1) Changes in intangible assets for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

	2018				
	Goodwill	Industrial property	Others	Membership right	Total
Beginning balance	₩ 126,813	₩ 8,258	₩ 172,582	₩ 10,477	₩ 318,130
Acquisition	-	396	9,101	596	10,093
Disposals	-	-	(273)	(328)	(601)
Transfers(*1)	-	236	(1,644)	2,846	1,438
Amortization	-	(904)	(22,121)	(16)	(23,041)
Impairment loss	-	(15)	-	12	(3)
Others	176	15	1,807	82	2,080
Changes in scope of consolidation	-	-	(229)	-	(229)
Spin-off effect	(47,551)	(6,708)	(128,271)	36,991	(145,539)
Ending balance	<u>₩ 79,438</u>	<u>₩ 1,277</u>	<u>₩ 30,952</u>	<u>₩ 50,660</u>	<u>₩ 162,327</u>

(In millions of Korean Won)

	2017				
	Goodwill	Industrial property	Others	Membership right	Total
Beginning balance	₩ 129,623	₩ 7,243	₩ 272,092	₩ 11,112	₩ 420,070
Acquisition	496	933	8,579	226	10,234
Disposals	-	-	(313)	(1,839)	(2,152)
Transfers(*1)	-	1,823	377	17	2,217
Amortization	-	(1,669)	(38,334)	(38)	(40,041)
Impairment loss (*2)	-	(72)	(54,256)	(141)	(54,469)
Others	(3,306)	-	(14,865)	1,140	(17,031)
Changes in scope of consolidation	-	-	(698)	-	(698)
Ending balance	<u>₩ 126,813</u>	<u>₩ 8,258</u>	<u>₩ 172,582</u>	<u>₩ 10,477</u>	<u>₩ 318,130</u>

(\*1): Transfers include transfer from or to property, plant and equipment.

(\*2): The Group recognized impairment loss on the intangible assets for KRW 54,256 million since the cash flow of operating facility of Somesevit Corporation is determined to be decreased. The impairment loss is presented as other expenses in the consolidated statement of profit or loss.

(2) Amortization expenses are allocated to manufacturing cost (2018: KRW 13,516 million, 2017: KRW 18,753 million), selling and administrative expenses (2018: KRW 703 million, 2017: KRW 716 million) and research and development expenses (2018: KRW 9,337 million, 2017: KRW 20,572 million), respectively.

(3) Impairment test for goodwill

Goodwill is monitored by the management at the operating segment or cash generating level. There are no changes in goodwill allocation method in 2018 and 2017. The following is a summary of goodwill allocation for each operating segment.

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2018				
	Beginning	Increase	Spin-off effect	Ending
Fabric	₩ 6,654	₩ -	₩ (6,654)	₩ -
Industrial Materials	40,721	-	(40,721)	-
Heavy industrial	496	-	-	496
Trading	2,216	-	-	2,216
Others	76,726	-	-	76,726
	<u>₩ 126,813</u>	<u>₩ -</u>	<u>₩ (47,375)</u>	<u>₩ 79,438</u>

  

2017				
	Beginning	Increase	Other adjustments	Ending
Fabric	₩ 6,654	₩ -	₩ -	₩ 6,654
Industrial Materials	44,027	-	(3,306)	40,721
Heavy industrial	-	496	-	496
Trading	2,216	-	-	2,216
Others	76,726	-	-	76,726
	<u>₩ 129,623</u>	<u>₩ 496</u>	<u>₩ (3,306)</u>	<u>₩ 126,813</u>

Goodwill impairment reviews are undertaken annually. As a result of Impairment test, the carrying value of other operating segments does not exceed the recoverable amounts. The recoverable amounts have been determined based on value-in-use calculations. These calculations use pre- tax cash flow projections based on financial budgets approved by management covering five- years period. Gross rate used for the projection of five-year period and perpetual growth rate used for the period after are stated below.

The key assumptions used for value-in-use calculations in 2018 are as follows:

<u>Key assumption factor</u>	<u>Other business</u>
Gross margin	0.97%
Growth rate(*1)	4.08%
Perpetual growth rate(*2)	1.00%
Pre-tax discount rate(*3)	9.90%

(\*1): The average revenue growth rate, which is computed based on historical growth rate, is used to forecast five years of cash flow.

(\*2): Projected growth rate over five years.

(\*3): Discount rate applied to the cash flow projections

**19. Investment in Associates**

(1) Details of associates of the Group as at December 31, 2018 are as follows.

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Shareholders	Percentage of ownership(%)		Main business place	Financial statement date in use
	2018	2017		
Hyosung T & C Co., Ltd.	20.32	-	Korea	2018-12-31
Hyosung Heavy Industry Co., Ltd.	32.47	-	Korea	2018-12-31
Hyosung Advanced Material Co., Ltd.	21.20	-	Korea	2018-12-31
Hyosung Chemical Co., Ltd.	20.17	-	Korea	2018-12-31
Taebaek Wind Power Co., Ltd.	35.00	35.00	Korea	2018-12-31
Pyeongchang Wind Power Co., Ltd. (*1)	42.00	42.00	Korea	2018-12-31
Hyosung Information System Co., Ltd.	50.00	50.00	Korea	2018-12-31
Hyosung Toyota	40.00	40.00	Korea	2018-12-31
Hyosung IIX Co., Ltd.	34.99	34.99	Korea	2018-12-31
Suncheon Eco Green Co., Ltd. (*2)	29.50	29.50	Korea	2018-12-31
Gwangju Ilbo Corporation	49.00	49.00	Korea	2018-12-31
Hyosung Vietnam Co., Ltd. (*3)	28.57	-	Vietnam	2018-12-31
Hyosung Istanbul TEKSTIL LTD.STI (*3)	56.58	-	Turkey	2018-12-31
PT. Papua Agro Lestari (*4)	15.00	15.00	Indonesia	2018-12-31
PT. GELORA MANDIRIMEMBANGUN (GMM) (*4)	15.00	15.00	Indonesia	2018-12-31

(\*1): The Group has pledged its shares of Pyeongchang Wind Power Co., Ltd. as collateral for borrowings of Pyeongchang Wind Power Co., Ltd. (Note 38).

(\*2): The equity method was discontinued due to capital impairment.

(\*3): Due to the decrease in ownership ratio resulting from the spin-off, it was reclassified to investment in associates from subsidiaries. The Company assigned the voting right on Hyosung Istanbul TEKSTIL LTD. STI to Hyosung TNC Corporation in accordance with the agreement between the shareholders.

(\*4): The Group holds less than 20% of the associate's equity shares. However, the Group has significant influence over associate as the Group has involved in making decision and management communication.

(2) Details of equity method valuation for investment in associates as at December 31, 2018 and 2017 are as follows:

Shareholders	Beginning	Acquisition (Disposals)	Movements by equity method in 2018			Movement from Spin-off	Ending
			Gain or loss on equity method investments	Other comprehensive income or loss	Others(*1)		
Hyosung T & C Co., Ltd.	-	176,483	-	-	-	-	176,483
Hyosung Heavy Industry Co., Ltd.	-	161,041	273,329	-	-	-	434,370
Hyosung Advanced Material Co., Ltd.	-	116,476	-	-	-	-	116,476
Hyosung Chemical Co., Ltd.	-	97,688	-	-	-	-	97,688
Shinhwa Intertek Co., Ltd.	14,230	-	(521)	36	15	(13,760)	-
Taebaek Wind Power Co., Ltd.	7,412	-	793	-	(274)	-	7,931
Pyeongchang Wind Power Co., Ltd.	6,949	-	2,126	28	-	-	9,103
Hyosung Information System Co., Ltd.	46,112	-	3,351	-	(2,723)	-	46,740
Hyosung Toyota	569	-	1,800	-	(12)	-	2,357
Hyosung IIX Co., Ltd.	21,437	-	2,455	(4,913)	(2,319)	-	16,660
Hyosung Vietnam Co., Ltd.	-	-	(3,004)	2,268	-	188,603	187,867
Hyosung Istanbul TEKSTIL LTD.STI	-	-	3,668	1,063	-	122,469	127,200
PT. Papua Agro Lestari	9,919	-	143	(190)	-	-	9,872
PT. GELORA MANDIRI MEMBANGUN (GMM)	4,409	-	(243)	(25)	-	-	4,141
Gwangju Ilbo Corporation	3,561	-	(55)	-	(5)	-	3,501
Other	2,640	(1,152)	150	-	-	-	1,638
	117,238	550,536	283,992	(1,733)	(5,318)	297,312	1,242,027

(In millions of Korean Won)

(\*1): Dividend, remeasurement component of net defined benefit liabilities and ect. were included.

**Hyosung Corporation and Subsidiaries**  
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(In millions of Korean Won)

Shareholders	Beginning	Acquisition (Disposals)	Movements by equity method in 2017			Ending
			Gain or loss on equity method investments	Other comprehensive income or loss	Others(*1)	
Shinwha Intertek Co., Ltd.	14,969	-	(371)	(85)	(283)	14,230
Taebaek Wind Power Co., Ltd.	6,650	-	762	-	-	7,412
Pyeongchang Wind Power Co., Ltd.	5,683	-	1,266	-	-	6,949
Hyosung Information System Co., Ltd.	46,581	-	1,969	-	(2,438)	46,112
Hyosung Toyota	-	-	553	-	16	569
Hyosung ITX Co., Ltd.	18,328	-	3,513	1,219	(1,623)	21,437
PT. Papua Agro Lestari	10,767	-	69	(917)	-	9,919
PT. GELORA MANDIRI MEMBANGUN (GMM)	4,544	-	2	(137)	-	4,409
Gwangju Ilbo Corporation	4,007	-	(430)	-	(16)	3,561
Other	3,844	(268)	(151)	-	(785)	2,640
	<u>115,373</u>	<u>(268)</u>	<u>7,182</u>	<u>80</u>	<u>(5,129)</u>	<u>117,238</u>

(\*1): Dividend, remeasurement component of net defined benefit liabilities and ect. were included.

(3) Summary of condensed financial information of major associates, details of adjustments from the book amount of investments in associates, and dividends received from associates as at and for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

	2018								
	Current assets	Non-current assets	Current liabilities	non-current liabilities	Revenue	Profit(Loss) from continuing operations	Other comprehensive income	Total comprehensive income(loss)	Dividends received from associates
Hyosung T & C Co., Ltd.	₩ 1,423,095	₩ 1,710,301	₩ 1,969,074	₩ 677,420	₩ 3,359,086	₩ 31,498	₩ (18,851)	₩ 12,648	₩ -
Hyosung Heavy Industry Co., Ltd.	1,512,258	1,920,027	1,998,380	528,483	2,180,485	2,619	(16,946)	(14,326)	-
Hyosung Advanced Material Co., Ltd.	1,030,998	1,503,700	1,474,716	593,966	1,767,487	(23,744)	2,478	(21,267)	-
Hyosung Chemical Co., Ltd.	429,020	1,214,926	716,676	560,022	1,116,772	20,395	2,891	23,286	-
Taebaek Wind Power Co., Ltd.	4,857	31,989	2,929	11,255	8,232	2,266	-	2,266	(274)
Pyeongchang Wind Power Co., Ltd.	10,187	71,824	5,149	55,187	12,615	5,063	-	5,063	-
Hyosung Information System Co., Ltd.	126,741	15,772	44,035	5,000	176,941	6,701	(257)	6,444	(2,595)
Hyosung Toyota	10,480	6,341	9,345	1,582	111,041	4,501	(29)	4,472	-
Hyosung Haitex Co., Ltd.	75,318	38,204	59,942	5,671	402,110	7,017	(14,285)	(7,268)	(2,179)
Hyosung Vietnam Co., Ltd.	429,144	445,339	636,789	658	1,274,323	47,753	-	47,753	-
Hyosung Istanbul TEKSTIL LTD.STI	69,578	116,909	34,746	76,143	161,370	16,348	-	16,348	-
PT. Papua Agro Lestari	27,664	36,893	2,485	17,529	-	957	(5,239)	(4,282)	-
PT. GELORA MANDIRI MEMBANGUN (GMM)	1,850	51,307	10,685	37,664	-	(1,618)	(976)	(2,594)	-
Gwangju Ilbo Corporation	4,118	18,542	14,092	1,424	8,112	(113)	(9)	(122)	-

(In millions of Korean Won)

	2017								
	Current assets	Non-current assets	Current liabilities	non-current liabilities	Revenue	Profit(Loss) from continuing operations	Other comprehensive income	Total comprehensive income(loss)	Dividends received from associates
Shinwha Intertek Co., Ltd.	₩ 71,055	₩ 125,213	₩ 95,420	₩ 7,595	₩ 176,569	₩ (1,879)	₩ (557)	₩ (2,436)	₩ (222)
Taebaek Wind Power Co., Ltd.	4,745	34,330	2,511	15,385	7,056	2,215	-	2,215	-
Pyeongchang Wind Power Co., Ltd.	9,123	67,886	880	59,583	11,907	3,038	-	3,038	-
Hyosung Information System Co., Ltd.	127,795	17,708	48,511	4,768	197,460	5,318	-	5,318	(2,595)
Hyosung Toyota	10,026	7,595	10,896	5,304	79,022	3,235	-	3,235	-
Hyosung Haitex Co., Ltd.	105,202	36,472	72,732	7,541	395,062	10,013	3,486	13,499	(874)
PT. Papua Agro Lestari	31,951	30,862	4,013	13,949	3,074	84	7	91	-
PT. GELORA MANDIRI MEMBANGUN (GMM)	1,998	44,303	4,214	35,493	-	(434)	12	(422)	-
Gwangju Ilbo Corporation	4,130	18,068	10,697	4,235	8,329	(738)	-	(738)	-

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- (4) Details of adjustments from financial information of major associates to the book amount of investments in associates for the years ended December 31, 2018 and 2017, are as follows:

(In millions of Korean Won)

	2018						
	Net assets (a)	Percentage of ownership (b)	Interests in net assets (a*b)	Goodwill	Inter-group transaction	Others	Book amount
Hyosung T & C Co., Ltd.	₩ 403,571	20.32%	₩ 82,006	₩ -	₩ -	₩ 94,477	₩ 176,483
Hyosung Heavy Industry Co., Ltd.	906,131	32.47%	294,221	-	-	140,150	434,371
Hyosung Advanced Material Co.,	385,806	21.20%	81,791	-	-	34,685	116,476
Hyosung Chemical Co., Ltd.	367,249	20.17%	74,074	-	-	23,614	97,688
Taebaek Wind Power Co., Ltd.	22,662	35.00%	7,932	-	-	-	7,932
Pyeongchang Wind Power Co., Ltd.	21,675	42.00%	9,104	-	-	-	9,104
Hyosung Information System Co.,	93,478	50.00%	46,739	-	-	-	46,739
Hyosung Toyota	5,894	40.00%	2,358	-	-	-	2,358
Hyosung Haitex Co., Ltd.	47,909	34.99%	16,763	-	-	(103)	16,660
Hyosung Vietnam Co., Ltd.	237,036	28.57%	67,721	98,407	-	21,739	187,867
Hyosung Istanbul TEKSTIL	75,598	56.58%	42,773	64,108	-	20,319	127,200
PT. Papua Agro Lestari	44,543	15.00%	6,681	3,191	-	-	9,872
PT. GELORA MANDIRI MEMBANGUN (GMM)	4,808	15.00%	721	3,420	-	-	4,141
Gwangju Ilbo Corporation	7,144	49.00%	3,501	-	-	-	3,501

(In millions of Korean Won)

	2017						
	Net assets (a)	Percentage of ownership (b)	Interests in net assets (a*b)	Goodwill	Inter-group transaction	Others	Book amount
Shinhwa Intertek Co., Ltd.	₩ 93,252	15.26%	₩ 14,230	₩ -	₩ -	₩ -	₩ 14,230
Taebaek Wind Power Co., Ltd.	21,178	35.00%	7,412	-	-	-	7,412
Pyeongchang Wind Power Co., Ltd.	16,546	42.00%	6,949	-	-	-	6,949
Hyosung Information System Co.,	92,224	50.00%	46,112	-	-	-	46,112
Hyosung Toyota	1,422	40.00%	569	-	-	-	569
Hyosung Haitex Co., Ltd.	61,400	34.99%	21,484	-	-	(47)	21,437
PT. Papua Agro Lestari	44,851	15.00%	6,728	3,191	-	-	9,919
PT. GELORA MANDIRI MEMBANGUN (GMM)	6,595	15.00%	989	3,420	-	-	4,409
Gwangju Ilbo Corporation	7,266	49.00%	3,561	-	-	-	3,561

**Hyosung Corporation and Subsidiaries**  
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(5) Fair value of marketable investments in associates as at December 31, 2018 and 2017 are as follows:

2018				
	Number of shares	Market price per share (in Korean won)	Fair value (in millions of Korean won)	Book value (in millions of Korean won)
Hyosung ITX Co., Ltd.	4,349,000	₩ 10,400	₩ 45,230	₩ 6,961
Hyosung T & C Co., Ltd.	879,290	185,000	162,669	176,483
Hyosung Heavy Industry Co., Ltd.	3,027,801	41,350	125,200	161,041
Hyosung Advanced Material Co., Ltd.	949,839	103,000	97,833	116,476
Hyosung Chemical Co., Ltd.	643,481	142,000	91,374	97,688

  

2017				
	Number of shares	Market price per share (in Korean won)	Fair value (in millions of Korean won)	Book value (in millions of Korean won)
Shinhwa Intertek Co., Ltd.	4,446,227	₩ 2,415	₩ 10,738	₩ 14,230
Hyosung ITX Co., Ltd.	4,349,000	12,600	54,797	21,437

(6) Accumulated unrecognized changes in equity due to discontinued use of equity method for the year ended December 31, 2018 are as follows:

	(In millions of Korean Won)	
	Unrecognized loss	Unrecognized accumulated losses
Suncheon Eco Green Co., Ltd.	₩ (1,524)	₩ (1,916)

**Hyosung Corporation and Subsidiaries**  
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**20. Related Party Transactions**

Details of associates and other related parties as at December 31, 2018 are as follows:

(1) Associates

<b>Region</b>	<b>Related Party</b>
Domestic	Hyosung Heavy Industries Co., Ltd., Hyosung Advanced Materials Co., Ltd., Hyosung Chemical Co., Ltd., Taebaek Wind Power Company, Pyeongchang Wind Power Co., Suncheon Eco Green Company, Hyosung ITX Co., Ltd., Hyosung Information System Co., Hyosung Toyota Co., Pathfinder Youth Entrepreneurs Investment Association
Asia	Papua Agro Lestari, PT. GELORA MANDIRI MEMBANGUN(GMM), Hyosung Vietnam Co., Ltd.
Europe	Hyosung Istanbul TEKSTIL LTD.STI

(2) Other related party

<b>Region</b>	<b>Related Party</b>
Domestic	Galaxia Corporation, Galaxia Device, Galaxia Micropayment, Galaxia Electronics, Gongdeuk Development, The Class Hyosung, The Premium Hyosung, Dongyang Industry, Shindongjin Co., Ahip Automotive Group, Haitex Marketing Co., M & S Corporation, Trinity Asset Management Co., Ltd., Happy Dudley Co., Ltd., Hyosung Premier Motors Co., Ltd., AES Co., Ltd., Saebitsum Co. and others
China	Hyosung Spandex (Zhuhai) Co., Ltd., Tianjin Galaxia Device Electronics Co., Ltd., Hyosung Spandex (Jiaxing) Co., Ltd., Hyosung Spandex (GuangDong) Co., Ltd., Huizhou Galaxia Device Electronics Co., Ltd., Qingdao Galaxia Device Electronics Co., Ltd., DNS Technology Co., Ltd., Weihai Newsolim Electronics Co., Ltd. and others
Asia	Galaxia Japan, Hyosung DongNai Co,LTD, HYOSUNG T&D INDIA Pvt Ltd, Hyosung Vina Chemicals Co., Ltd, HYOSUNG VINA CONSTRUCTION CO., LTD and others
China	GST Global GmbH, Hyosung Luxembourg S.A, Hyosung Europe SRL and others
America	Hyosung Mexico CITY S.A. de C.V., HYOSUNG BRASIL INDUSTRIA E COMERCIO DE FIBRAS LTDA, and others
Others	Hyosung South Africa (PTY) LTD, and others

(3) Others

<b>Region</b>	<b>Related Party</b>
Domestic	Galaxia SM, Galaxia Communications, Shinseong Motor Co., Ltd., Jinheung Enterprise Co., Ltd., Taeyoung Construction Co., Ltd., and others
China	IB China, Ltd., SHINWHA INTERTEK (SUZHOU) CO., LTD, DONGGUAN SHINWHA INTERTEK CORP and others
America	IB America, Inc. and others
Europe	Shinwha Intertek Slovakia S.R.O and others

Those entities are not subject to the related party in accordance with Korean IFRS 1024, but the entity belongs to a large enterprise group in accordance with the Monopoly Regulation and Fair-Trade Act. Therefore, the Group included those entities in the scope of the related parties.

**Hyosung Corporation and Subsidiaries**  
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(4) Significant transactions with related parties

1) Significant transactions and outstanding balances with relate parties for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean won)

	2018			
	Sales and Others (*1)	Dividend income	Purchase and Others	Acquisition of Fixed Assets
<b>Associates</b>				
Hyosung Heavy Industry	₩ 55,665	₩ -	₩ 85,610	₩ -
Hyosung TNC Co., Ltd.	35,978	-	56,267	-
Hyosung Chemical Co., Ltd.	34,759	-	1,165	-
Hyosung Advanced Material Co., Ltd.	33,786	-	90,644	1
Hyosung Information System Co., Ltd.	472	2,595	310	1,004
Hyosung Vietnam Co., Ltd.	2,401	-	131,913	-
Others	6,339	2,453	9,397	459
	<u>169,400</u>	<u>5,048</u>	<u>375,306</u>	<u>1,464</u>
<b>Other related parties</b>				
Global Safety Textiles LLC	25,380	-	559	241
HYOSUNG T & D INDIA Pvt Ltd	12,025	-	388	-
Hyosung Japan Co., Ltd	5,430	-	106	-
Galaxia Electronics (China Huizhou) CO., Ltd.	2,021	-	129,259	69
Hyosung DongNai Co., LTD	848	-	108,370	-
Others	8,610	-	31,848	408
	<u>54,314</u>	<u>-</u>	<u>270,530</u>	<u>718</u>
<b>Others</b>				
Shinwha intertek Co., Ltd.	3,992	-	3	-
Galaxia Communications	1,080	-	20	-
Jin Heuong International Co.	1,056	-	-	2,748
Others	2	-	6,234	-
	<u>6,130</u>	<u>-</u>	<u>6,257</u>	<u>2,748</u>
Total	<u>₩ 229,844</u>	<u>₩ 5,048</u>	<u>₩ 652,093</u>	<u>₩ 4,930</u>

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

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(In millions of Korean won)

		2017			
		Sales and Others (*1)	Dividend income	Purchase and Others	Acquisition of Fixed Assets
<b>Associates</b>					
	Shinhwa Intertek Co., Ltd.	₩ 13,180	₩ 222	₩ 27	₩ -
	Hyosung Haitex Co., Ltd.	12,004	874	6,652	777
	Hyosung Information System Co., Ltd.	231	2,595	148	1,593
	Others	1,323	36	946	-
		<u>26,738</u>	<u>3,727</u>	<u>7,773</u>	<u>2,370</u>
<b>Other related parties</b>					
	Galaxia Device Co., Ltd.	229	-	13,687	-
	Galaxia Electronics, Inc.	40,501	-	20,258	1,255
	Gongduk Development Co., Ltd.	19	-	9,035	-
	Shin, Dong-Jin Co.	-	-	6,347	-
	Huizhou Galaxia Device Electronics. Co., Ltd.	358	-	110,440	466
	Others	4,610	-	461	991
		<u>45,717</u>	<u>-</u>	<u>160,228</u>	<u>2,712</u>
<b>Others</b>					
	Galaxia SM	5	-	6,607	-
	Jin Hung International Co.	3,099	-	-	2,000
	Others	1,059	-	12	-
		<u>4,163</u>	<u>-</u>	<u>6,619</u>	<u>2,000</u>
	Total	<u>₩ 76,618</u>	<u>₩ 3,727</u>	<u>₩ 174,620</u>	<u>₩ 7,082</u>

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

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(In millions of Korean won)

		2018			
		Trade receivables and Others	Other receivables (*1)	Trade payables	Other payables
<b>Associates</b>					
	Hyosung Heavy Industries Co., Ltd. (*2)	₩ 12,241	₩ 23,316	₩ 44,355	₩ 5,218
	Hyosung Chemical Co., Ltd.	10,395	8	364	2,017
	Hyosung Advanced Material Co., Ltd.	9,349	181	1,293	1,201
	Hyosung TNC Co., Ltd.	8,568	483	11,410	1,597
	Hyosung Vietnam Co., Ltd.	760	-	44,254	-
	Gwangju Ilbo Corporation	-	7,980	-	55
	Others	276	4,983	166	1,013
		<u>41,589</u>	<u>36,951</u>	<u>101,842</u>	<u>11,101</u>
<b>Other related parties</b>					
	Global Safety Textiles LLC	8,200	-	544	-
	Hyosung Europe SRL	2,858	470	4	274
	Hyosung DongNai Co., LTD	301	23	16,615	-
	Galaxia Electronics (China Huizhou) CO., Ltd.	-	885	9,219	55
	Others	1,611	877	6,196	58
		<u>12,970</u>	<u>2,255</u>	<u>32,578</u>	<u>387</u>
<b>Others</b>					
	Shinhwa Intertek	145	-	-	-
	Galaxia SM	20	-	112	140
	Jin Hung International Co.	1	-	-	3,023
	Others	2	-	3	694
		<u>168</u>	<u>-</u>	<u>115</u>	<u>3,857</u>
	Total	<u>₩ 54,727</u>	<u>₩ 39,206</u>	<u>₩ 134,535</u>	<u>₩ 15,345</u>

(\*1): Non-trade receivables, loans, accrued income and others are included in other receivables. Non-trade payables, deposits received and others are included in other payables.

(\*2): The membership right on Hyosung Heavy Industries amounting to KRW 40,800 million has been accounted for as intangible assets.

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(In millions of Korean won)

	2017			
	Trade receivables and Others	Other receivables(*1)	Trade payables	Other payables
<b>Associates</b>				
Gwangju Ilbo Corporation	₩ -	₩ 7,727	₩ -	₩ 55
Shinhwa Intertek Co., Ltd.	2,718	-	-	2,499
Hyosung ITX Co., Ltd.	958	-	1,157	2,746
PT. GELORA MANDIRI	-	4,738	-	-
Others	521	962	323	4,173
	<u>4,197</u>	<u>13,427</u>	<u>1,480</u>	<u>9,473</u>
<b>Other related parties</b>				
Galaxia Electronics, Inc.	20,417	129	1,584	40
Gongduk Development Co., Ltd.	-	4,637	-	20
The Class Hyosung	85	5	-	5,733
Shin, Dong-Jin	-	4,204	-	596
Huizhou Galaxia Device Electronics. Co., Ltd.	4,214	1,671	14,314	272
Others	61	2,885	2,078	-
	<u>24,777</u>	<u>13,531</u>	<u>17,976</u>	<u>6,661</u>
<b>Others</b>				
Galaxia SM Co.	-	19	1,978	1,329
Jin Hung International Co.	1	17,292	-	20,113
Others	16	-	3	693
	<u>17</u>	<u>17,311</u>	<u>1,981</u>	<u>22,135</u>
Total	<u>₩ 28,991</u>	<u>₩ 44,269</u>	<u>₩ 21,437</u>	<u>₩ 38,269</u>

(\*1): Non-trade receivables, loans, accrued income and others are included in other receivables. Non-trade payables, deposits received and others are included in other payables.

2) Fund transfer to related parties for the years ended December 31, 2018 and 2017 are as follows:

	2018						
	Beginning balance	Loans	Collection	Exclusion (spin-off)	Translation exchange differences	Ending balance	Contribution in cash
<b>Associates</b>							
Suncheon Eco Green Co., Ltd.	₩ 924	₩ 345	₩ -	₩ (1,269)	₩ -	₩ -	₩ -
PT. Gelora Mandiri Membangun	4,738	-	-	-	207	4,945	-
Gwangju Ilbo Corporation	7,149	-	-	-	-	7,149	-
Pathfinder Youth Entrepreneurs Investment Association	-	-	-	-	-	-	1,050
<b>Other related parties</b>							
The Class Hyosung	47	-	(47)	-	-	-	-
Ahseung Automotive Group	100	-	(100)	-	-	-	-

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	2017					
	Beginning balance	Loans	Collection	Translation exchange differences	Ending balance	Contribution in cash
<b>Associates</b>						
Gwangju Ilbo Corporation	₩ 7,149	₩ -	₩ -	₩ -	₩ 7,149	₩ -
Suncheon Eco Green Co., Ltd.	-	924	-	-	924	-
Pathfinder Youth Entrepreneurs Investment Association	-	-	-	-	-	700
PT. GELORA MANDIRI MEMBANGUN (GMM)	5,345	-	-	(607)	4,738	-
<b>Others related parties</b>						
The Class Hyosung	44	130	(127)	-	47	-
Ahseung Automotive Group	100	-	-	-	100	-
<b>Others</b>						
Jin Hung International Co.	-	-	-	-	-	28,400

(\*1): The Group has transferred all of its contract performance guarantee deposits to Suncheon Eco Green Corporation as a loan. As at December 31, 2017, the Group has provided allowance for bad debts amounting to KRW 924 million and KRW 924 million is recognized for bad debt expenses for the year ended December 31, 2017.

3) Details of remuneration to key management for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean won)

	2018	2017
Salaries and other short-term employee benefits	₩ 7,017	₩ 5,843
Post-employment benefits	731	383
	<u>₩ 7,748</u>	<u>₩ 6,226</u>

4) Details of collaterals and payment guarantee provided by the Group for the related parties as at December 31, 2018 are as follows:

(In millions of Korean won)

	2018					
	Carrying amount	Secured amount	Secured asset	Remark	Amount of borrowings	Provided by
<b>Associates</b>						
Sooncheon Eco Green	₩ -	₩ -	Equity security	Borrowings	37,631	Industrial Bank of Korea and others
Pyeongchang Wind Power	9,104	6,510	Equity security	Borrowings	56,715	Woori Bank and others
	<u>₩ 9,104</u>	<u>₩ 6,510</u>			<u>94,346</u>	

In addition, the Group provides the payment guarantee of KRW 120,755 million in terms of borrowings of Hyosung DongNai Co., Ltd (other related parties). The Group provides 2 checks and 4 notes as collaterals to Oksan Ochang Highway Corporation and Soonchon Eco Green Corporation (Note 38).

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**21. Trade Payables and Other Payables**

(1) Trade payables and other payables as at December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Trade payables	₩	304,646	₩	1,417,474
Other payables		166,483		656,318
Long-term other payables		220,786		400,493
	₩	691,915	₩	2,474,285

(2) Details of other payables as at December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
<b>Other payables</b>				
Non-trade payables	₩	95,442	₩	439,806
Accrued expenses		33,869		118,223
Withholdings		36,049		64,491
Withholding deposits		1,123		33,798
		166,483		656,318
<b>Long-term other payables</b>				
Non-trade payables		6,100		20,247
Accrued expenses		366		6,156
Withholding deposits		214,320		374,090
		220,786		400,493
	₩	387,268	₩	1,056,811

(3) The fair value of other long-term payables was measured by discounting the nominal amounts of future cash inflow with the discount rates reflecting the credit risk.

	2018	2017
Discount Rate	1.60%~3.40%	1.60%~5.00%

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**22. Borrowings**

(1) Borrowings as at December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
<b>Short-term borrowings</b>				
Short-term borrowings	₩	748,072	₩	3,323,341
Current portion of long-term borrowings and debentures		823,369		1,593,656
		<u>1,571,441</u>		<u>4,916,997</u>
<b>Long-term borrowings</b>				
Long-term borrowings		249,188		1,179,017
Debentures		693,738		1,166,072
		<u>942,926</u>		<u>2,345,089</u>
	₩	<u>2,514,367</u>	₩	<u>7,262,086</u>

The Group provides some of the Group's property, plant and equipment as collateral for the above borrowings (Notes 16 and 38).

(2) Details of borrowings as at December 31, 2018 and 2017 are as follows:

1) Short-term borrowings

	Creditor	Annual interest rate(%)	(In millions of Korean won)	
			2018	2017
Bank overdrafts	-	-	₩ -	₩ 6,427
General loan	Woori Bank and others	3.00~4.83	372,817	2,368,711
Collateralized borrowings (*1)	Woori Bank and others	3.61~4.08	90,981	690,626
Others	Woori Bank and others	2.55~4.65	284,274	257,577
			<u>₩ 748,072</u>	<u>₩ 3,323,341</u>

(\*1): The Group sold trade receivables denominated in foreign currencies at a discount to the financial institutions. The Group may retain an obligation to compensate a financial institution for debtors' failure to make payment when they become due, an obligation known as a 'recourse obligation'. Recourse obligations related to the sales of receivables with recourse are accounted for as collateralized borrowings (Notes 7 and 38).

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2) Long-term borrowings

			(In millions of Korean won)	
	Creditor	Annual interest rate(%)	2018	2017
<b>Hyosung Corp.</b>				
Long-term borrowings denominated in Korean won	Korea Energy Co.	0.75	₩ 1,171	₩ 419,947
Long-term borrowings denominated in US dollars	-	-	-	219,334
<b>Subsidiaries</b>				
Long-term borrowings denominated in Korean won	Woori Bank and others	3.25~4.95	367,544	867,765
Long-term borrowings denominated in US dollars	The Export-Import Bank of Korea and others	4.75~5.11	62,707	165,303
Total			431,422	1,672,349
Less: Current portion			(181,988)	(492,982)
Present value discounts			(246)	(350)
			<u>₩ 249,188</u>	<u>₩ 1,179,017</u>

Above long-term borrowings are subject to installment repayment or lump-sum repayment at maturity date. Borrowings are collateralized with the Group's available-for-sale financial assets and property, plant and equipment, and others (Notes 12, 16 and 38).

3) Debentures

			(In millions of Korean won)	
	Maturity date	Interest rate as at Dec 31, 2018 (%)	2018	2017
<b>Hyosung Corporation</b>				
253-2nd Public subscription bond	2018-02-21	-	₩ -	₩ 30,000
256-2nd Public subscription bond	2018-02-25	-	-	100,000
256-3rd Public subscription bond	2020-02-25	-	-	50,000
257-1st Public subscription bond	2018-06-26	-	-	130,000
257-2nd Public subscription bond	2020-06-26	-	-	70,000
258th Private bond	2018-12-29	-	-	28,473
259-1st Public subscription bond	2019-04-25	-	-	102,000
259-2nd Public subscription bond	2021-04-25	-	-	98,000
260-1st Public subscription bond	2019-12-27	-	-	120,000
260-2nd Public subscription bond	2021-12-28	-	-	30,000
<b>Hyosung Capital</b>				
110th Debenture	2018-01-02	-	-	15,000
128th Debenture	2018-12-31	-	-	3,000
129th Debenture	2018-03-28	-	-	20,000
130th Debenture	2018-04-23	-	-	20,000
133-1st Debenture	2019-06-14	4.43	20,000	20,000
133-2nd Debenture	2019-06-14	4.43	9,000	9,000
136th Debenture	2018-06-24	-	-	20,000
137th Debenture	2018-06-28	-	-	20,000
139th Debenture	2018-07-18	-	-	10,000
146-2nd Debenture	2018-01-30	-	-	3,000
146-3rd Debenture	2018-02-28	-	-	15,000

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147-3rd Debenture	2018-03-05	-	-	10,000
148th Debenture	2018-03-09	-	-	15,000
149th Debenture	2018-03-20	-	-	18,000
150-2rd Debenture	2018-03-30	-	-	20,000
151st Debenture	2018-04-05	-	-	15,000
152-2nd Debenture	2018-01-11	-	-	15,000
153-2nd Debenture	2018-01-14	-	-	15,000
154-2nd Debenture	2018-01-26	-	-	20,000
155-2nd Debenture	2018-02-02	-	-	5,000
156th Debenture	2018-02-19	-	-	15,000
157-2nd Debenture	2018-02-22	-	-	15,000
158th Debenture	2018-02-23	-	-	20,000
160th Debenture	2018-06-05	-	-	17,000
161st Debenture	2018-03-13	-	-	5,000
164th Debenture	2018-01-11	-	-	21,000
165th Debenture	2018-01-23	-	-	10,000
167th Debenture	2018-02-01	-	-	30,000
168th Debenture	2018-02-06	-	-	10,000
169th Debenture	2018-05-08	-	-	6,200
170th Debenture	2018-05-16	-	-	5,000
171st Debenture	2018-05-23	-	-	10,000
172-1st Debenture	2018-03-08	-	-	10,000
172-2nd Debenture	2018-06-08	-	-	20,000
173-1st Debenture	2018-03-13	-	-	20,000
173-2nd Debenture	2018-06-13	-	-	20,000
174th Debenture	2018-06-17	-	-	5,000
175th Debenture	2018-07-03	-	-	10,000
176-1st Debenture	2018-04-04	-	-	20,000
176-2nd Debenture	2018-07-04	-	-	10,000
176-3rd Debenture	2018-09-28	-	-	10,000
176-4th Debenture	2018-10-04	-	-	20,000
176-5th Debenture	2019-04-04	4.03	1,500	1,500
177th Debenture	2019-05-10	4.01	20,000	20,000
178th Debenture	2019-05-24	3.96	20,000	20,000
179th Debenture	2018-11-25	-	-	10,000
180-1st Debenture	2019-05-26	3.95	8,000	8,000
180-2nd Debenture	2019-11-26	4.24	20,000	20,000
181st Debenture	2019-05-30	3.91	20,000	20,000
182-1st Debenture	2018-12-07	-	-	20,000
182-2nd Debenture	2019-06-07	3.94	20,000	20,000
183-1st Debenture	2018-12-14	-	-	5,000
183-2nd Debenture	2019-06-14	3.87	5,000	5,000
183-3rd Debenture	2019-09-16	4.04	15,000	15,000
184-1st Debenture	2019-03-22	3.69	20,000	20,000
184-2nd Debenture	2019-06-24	3.83	10,000	10,000
184-3rd Debenture	2019-12-22	4.24	20,000	20,000
185-1st Debenture	2018-10-01	-	-	10,000
185-2nd Debenture	2019-07-01	3.78	5,000	5,000
185-3rd Debenture	2019-12-29	4.24	10,000	10,000
186th Debenture	2019-07-04	3.75	30,000	30,000
187-1st Debenture	2019-07-19	3.73	22,000	22,000

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187-2nd Debenture	2019-10-19	4.02	10,000	10,000
188-1st Debenture	2019-01-31	3.31	10,000	10,000
188-2nd Debenture	2019-07-31	3.68	20,000	20,000
188-3rd Debenture	2019-10-31	3.91	10,000	10,000
188-4th Debenture	2020-01-31	4.08	5,000	5,000
189-1st Debenture	2019-08-08	3.67	10,000	10,000
189-2nd Debenture	2019-11-08	3.91	10,000	10,000
189-3rd Debenture	2020-02-07	4.1	10,000	10,000
190-1st Debenture	2020-02-17	4.18	10,000	10,000
190-2nd Debenture	2020-08-17	4.62	10,000	10,000
191-1st Debenture	2019-11-22	3.98	10,000	10,000
191-2nd Debenture	2020-02-21	4.19	10,000	10,000
192nd Debenture	2019-11-25	4.01	10,000	10,000
193rd Debenture	2020-08-31	4.57	10,000	10,000
194-1st Debenture	2019-09-05	3.59	10,000	10,000
194-2nd Debenture	2020-03-05	4.01	3,000	3,000
195th Debenture	2019-09-13	3.4	10,000	10,000
196th Debenture	2020-03-22	3.97	10,000	10,000
197th Debenture	2019-03-26	3.1	20,000	20,000
198-1st Debenture	2019-07-10	3.32	2,000	2,000
198-2nd Debenture	2019-10-10	3.58	4,000	4,000
198-3rd Debenture	2020-04-10	4.33	20,000	20,000
199-1st Debenture	2019-04-24	3.48	10,000	10,000
199-2nd Debenture	2019-10-24	3.87	13,000	13,000
200th Debenture	2019-04-26	3.47	20,000	20,000
201-1st Debenture	2019-04-30	3.56	20,000	20,000
201-2nd Debenture	2020-04-30	4.64	20,000	20,000
202nd Debenture	2019-05-06	3.59	17,000	17,000
203rd Debenture	2019-11-21	4.18	19,000	19,000
204th Debenture	2019-11-25	4.09	20,000	20,000
205-1st Debenture	2018-11-28	-	-	20,000
205-2nd Debenture	2019-11-28	4.04	20,000	20,000
206th Debenture	2019-12-09	3.94	20,000	20,000
207th Debenture	2019-06-22	3.35	10,000	10,000
208-1st Debenture	2019-12-26	3.83	20,000	20,000
208-2nd Debenture	2020-06-26	4.49	10,000	10,000
209th Debenture	2020-01-11	3.86	15,000	-
210th Debenture	2020-01-20	3.9	10,000	-
210-1st Debenture	2020-06-08	3.65	10,000	-
210-2nd Debenture	2020-12-08	4.29	10,000	-
211-1st Debenture	2019-07-30	3.28	7,000	-
211-2nd Debenture	2020-01-30	3.85	15,000	-
212nd Debenture	2020-02-14	3.86	20,000	-
213rd Debenture	2019-08-21	3.35	10,000	-
214-1st Debenture	2019-08-26	3.33	5,000	-
214-2nd Debenture	2020-02-26	3.85	20,000	-
215th Debenture	2020-03-13	3.86	20,000	-
216-1st Debenture	2020-03-30	3.77	20,000	-
216-2nd Debenture	2020-09-30	4.53	20,000	-
217-1st Debenture	2020-04-27	3.73	20,000	-
217-2nd Debenture	2020-10-27	4.45	20,000	-

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218th Debenture	2020-05-25	3.68	10,000	-
219th Debenture	2020-06-05	3.64	10,000	-
221st Debenture	2020-12-14	4.28	10,000	-
222-1st Debenture	2020-06-25	3.64	10,000	-
222-2nd Debenture	2020-09-25	3.93	5,000	-
222-3rd Debenture	2020-12-25	4.32	20,000	-
223-1st Debenture	2020-09-28	3.92	10,000	-
223-2nd Debenture	2020-12-28	4.32	20,000	-
223-3rd Debenture	2021-06-28	4.66	10,000	-
224th Debenture	2021-01-06	4.18	10,000	-
225th Debenture	2021-01-18	4.16	20,000	-
226th Debenture	2021-07-26	4.52	20,000	-
227th Debenture	2020-07-31	3.52	10,000	-
228th Debenture	2021-08-13	4.44	20,000	-
229-1st Debenture	2021-03-03	3.98	30,000	-
229-2nd Debenture	2021-09-03	4.35	20,000	-
230th Debenture	2021-03-17	3.88	30,000	-
231st Debenture	2021-03-22	3.93	20,000	-
232-1st Debenture	2020-10-11	3.42	10,000	-
232-2nd Debenture	2021-04-12	3.97	10,000	-
232-3rd Debenture	2021-10-11	4.3	20,000	-
233rd Debenture	2021-11-12	4.14	10,000	-
234rd Debenture	2021-11-29	4.01	10,000	-
235-1st Debenture	2021-06-28	3.55	10,000	-
235-2nd Debenture	2021-12-28	3.89	20,000	-
24th ABS	2018-11-16	-	-	35,000
25th ABS	2018-01-17	-	-	6,000
25th ABS	2018-02-14	-	-	5,000
25th ABS	2018-03-16	-	-	5,000
25th ABS	2018-04-17	-	-	5,000
25th ABS	2018-06-15	-	-	5,000
25th ABS	2018-07-17	-	-	5,000
25th ABS	2018-08-17	-	-	5,000
25th ABS	2018-09-17	-	-	5,000
25th ABS	2018-10-17	-	-	5,000
25th ABS	2018-11-16	-	-	5,000
25th ABS	2019-01-17	-	-	5,000
25th ABS	2019-03-15	-	-	5,000
26th ABS	2019-01-06	2.29	5,000	-
26th ABS	2019-02-06	2.37	5,000	-
26th ABS	2019-03-06	2.44	4,000	-
26th ABS	2019-04-06	2.5	4,000	-
26th ABS	2019-05-06	2.56	4,000	-
26th ABS	2019-06-06	2.6	4,000	-
26th ABS	2019-07-06	2.64	4,000	-
26th ABS	2019-08-06	2.67	3,000	-
26th ABS	2019-10-06	2.26	3,000	-
26th ABS	2019-12-06	2.31	3,000	-
26th ABS	2020-02-06	2.36	3,000	-
Asset Backed Short-Term Bond	2018-02-08	-	-	15,000
Asset Backed Short-Term Bond	2018-02-08	-	-	5,000

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Asset Backed Short-Term Bond	2018-02-12	-	-	10,000
Asset Backed Short-Term Bond	2018-02-19	-	-	10,000
Asset Backed Short-Term Bond	2018-02-22	-	-	10,000
Asset Backed Short-Term Bond	2018-02-23	-	-	7,000
Asset Backed Short-Term Bond	2018-03-13	-	-	7,000
				1,357,500
				2,270,173
Less : Current portion			(661,500)	(1,100,673)
Discount on bonds payable			(2,262)	(3,428)
			<u>₩</u>	<u>₩</u>
			693,738	1,166,072

**23. Post-employment Benefits**

(1) Details of net defined benefit liabilities as at December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Present value of defined benefit obligations	₩	168,557	₩	456,270
Fair value of plan assets(*1)		(158,488)		(432,995)
Net defined benefit liabilities	<u>₩</u>	<u>10,068</u>	<u>₩</u>	<u>23,275</u>

(\*1): The contributions to the National Pension Fund of KRW 122 million are included in the fair value of plan assets as at December 31, 2018 (2017: KRW 462 million).

(2) The amounts recognized in the profit or loss for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Current service cost	₩	35,062	₩	60,780
Interest expense		6,507		9,723
Interest income		(7,707)		(11,304)
Service cost of the past period and adjustment		26,109		6
	<u>₩</u>	<u>59,971</u>	<u>₩</u>	<u>59,205</u>

(3) Line items including total expenses in the profit or loss for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Cost of sales	₩	30,485	₩	32,984
Selling and administrative expenses		25,999		22,900
Research and development expenses		3,487		3,321
	<u>₩</u>	<u>59,971</u>	<u>₩</u>	<u>59,205</u>

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(4) Movements in the defined benefit obligations for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Beginning balance	₩	456,270	₩	437,373
Current service cost		35,062		60,780
Interest expense		6,507		9,723
Service cost of the past period and adjustment		26,109		6
Benefit payments		(25,285)		(26,423)
Remeasurements:				
Actuarial loss from change in demographic assumptions		1,091		-
Actuarial loss (gain) from change in financial assumptions		4,616		(20,340)
Actuarial loss (gain) from experience adjustments		(8,688)		(4,303)
Transfer from(to) associates		(1,552)		(529)
Others(Transfer due to spin-off and etc.)		(325,573)		(17)
Ending Balance	₩	168,557	₩	456,270

(5) Movements in the fair value of plan assets for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Beginning balance	₩	432,995	₩	393,874
Interest income		7,707		11,304
Employer's contributions		31,158		60,778
Benefit payments		(33,917)		(24,114)
Remeasurements		(4,358)		(6,031)
Others		(275,097)		(2,816)
Ending balance	₩	158,488	₩	432,995

(6) Plan assets as at December 31, 2018 and 2017 consist of the followings:

	2018		2017	
Deposits	₩	136,785	₩	320,864
Debt instruments		21,703		112,131
	₩	158,488	₩	432,995

(7) Remeasurements of net defined benefit liabilities recognized as other comprehensive income(expenses) for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Before income tax effects	₩	(1,650)		18,612
Income tax effects		323		(4,608)
After income tax effects	₩	(1,327)		14,004

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(8) The significant actuarial assumptions as at December 31, 2018 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	0.35%~2.75%	0.3%~3.39%
Wage growth rate	1.02%~3.34%	1.02%~4.57%

(9) The sensitivity of the defined benefit obligation to changes in the principal assumptions is as follows:

	<u>Changes in assumption</u>	<u>Impact on defined benefit obligation</u>
Discount rate	1.0% increase/decrease	0.84%~8.7% decrease / 0.85%~10.25% increase
Wage growth rate	1.0% increase/decrease	0.85%~10.14% increase / 0.85%~8.77% decrease

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations recognized on the consolidated statement of financial position.

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

(10) The Group reviews the funding level on an annual basis and has a policy of recovering deficit. Expected contributions to post-employment benefit plans for the year ending December 31, 2019 are KRW 15,273 million.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2018 are as follows:

	(In millions of Korean won)				
	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Pension benefits	₩ 6,429	₩ 5,239	₩ 20,603	₩ 155,804	₩ 188,075

The weighted average duration of the defined benefit obligations is 1.22 ~ 11.5 years.

(11) Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was KRW 4,112 million (2017: KRW 5,870 million).

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**24. Tax Expense and Deferred Tax**

(1) Income tax expense for the years ended December 31, 2018 and 2017 consists of the followings:

	(In millions of Korean won)	
	2018	2017
Current tax		
Current tax on profit for the year	₩ 115,167	₩ 197,023
Adjustments in respect of prior years	(82,580)	(92,439)
Total current tax	32,588	104,584
Deferred tax		
Origination and reversal of temporary differences	151,496	(66,760)
Impact of change in tax rate	-	2,082
Total deferred tax	151,496	(64,677)
Income tax expense	₩ 184,084	₩ 41,989
Income tax expense(benefit) from discontinued operation	80,917	127,342
Income tax expense(benefit) from continuing operation	103,167	(85,353)

(2) Details of reconciliation between the tax on the Group's profit before tax and the theoretical amount arising from the weighted average tax rate are as follows:

	(In millions of Korean won)	
	2018	2017
Profit before income tax expense	₩ 3,610,061	₩ 382,829
Tax calculated at tax rates	873,173	139,358
Tax effects of		
Income not subject to tax	(687,859)	(5,451)
Expenses not deductible for tax purposes	9,944	27,104
Adjustment in respect of prior years	(82,580)	(92,439)
Tax credits	(18,685)	(33,743)
Others	90,090	5,078
Impact of change in tax rate	-	2,082
Income tax expense(benefit)	₩ 184,084	₩ 41,989
Income tax expense(benefit) from discontinued operation	80,917	127,342
Income tax expense(benefit) from continuing operation	103,167	(85,353)

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- (3) The timing of collection and settlement of deferred income tax assets and liabilities for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
<b>Deferred tax assets</b>				
Deferred tax asset to be recovered after more than 12 months	₩	2,635	₩	327,986
Deferred tax asset to be recovered within 12 months		29,656		46,505
		<u>32,291</u>		<u>374,491</u>
<b>Deferred tax liabilities</b>				
Deferred tax liability to be recovered after more than 12 months		(266,554)		(495,647)
Deferred tax liability to be recovered within 12 months		(6,499)		2,479
		<u>(273,052)</u>		<u>(493,168)</u>
<b>Deferred tax assets(liabilities), net</b>	₩	<u>(240,761)</u>	₩	<u>(118,677)</u>

- (4) The movements in the deferred income tax account for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Beginning balance	₩	(118,677)	₩	(183,354)
Tax charged to the statement of profit or loss		(151,497)		53,653
Tax charged (credited) to components of other comprehensive income		35,055		11,024
Transfer by spin-off		(5,641)		-
Ending balance	₩	<u>(240,761)</u>	₩	<u>(118,677)</u>

- (5) The movements in deferred tax assets and liabilities for the years ended December 31, 2018 and 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	(In millions of Korean won)				
	2018				
	Beginning balance	Statement of profit or loss	Other comprehensive income	Transfer by spin-off	Ending balance
<b>Deferred tax liabilities</b>					
Gains on revaluation of land	₩ (281,542)	₩ 1	₩ -	₩ 184,702	₩ (96,839)
Investment in subsidiaries and associates	(59,411)	121	(22,837)	4,368	(77,759)
Defined benefit pension plan assets	(92,296)	(293)	774	67,161	(24,654)
Reserve for research and human resource development	(4,400)	4,033	-	-	(367)
Gain from fire insurance policy	(546)	2	-	101	(444)
Others	(65,367)	(145,337)	63,919	(1,026)	(147,811)
	<u>(503,562)</u>	<u>(141,474)</u>	<u>41,856</u>	<u>255,305</u>	<u>(347,874)</u>
<b>Deferred tax assets</b>					
Available-for-sale financial assets	98,530	(664)	(5,771)	(88,145)	3,950
Post-employment benefit obligation	97,619	8,666	(1,030)	(74,321)	30,934
Provision for receivables in excess of tax limit	24,985	(6,298)	-	(22,955)	(4,268)

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Government grants	5,430	(629)	-	(74)	4,727
Loss on valuation of inventories	14,969	353	-	(35,453)	(20,131)
Impairment loss on property, plant and equipment	38,839	(3,089)	-	(8,242)	27,508
Provision for guarantees	224	(10,754)	-	-	(10,530)
Accrued compensated absences	2,740	1,015	-	(5,314)	(1,559)
Provision for warranties	3,558	1,121	-	(13,501)	(8,822)
Provision for construction loss	1,019	(744)	-	(2,282)	(2,007)
Long-term employment allowance	12,113	(189)	-	(1,388)	10,536
Others	84,859	1,189	-	(9,271)	76,777
	<u>384,885</u>	<u>(10,023)</u>	<u>(6,801)</u>	<u>(260,947)</u>	<u>107,115</u>
	<u>₩ (118,677)</u>	<u>₩ (151,497)</u>	<u>₩ 35,055</u>	<u>₩ (5,641)</u>	<u>₩ (240,761)</u>

(In millions of Korean won)

	2017			
	Beginning balance	Statement of profit or loss	Other comprehensive	Ending balance
<b>Deferred tax liabilities</b>				
Gains on revaluation of land	₩ (285,743)	₩ 4,201	₩ -	₩ (281,542)
Investment in subsidiaries and associates	(59,411)	-	-	(59,411)
Defined benefit pension plan assets	(83,766)	(9,784)	1,254	(92,296)
Reserve for research and human resource development	(12,467)	8,067	-	(4,400)
Gain from fire insurance policy	(546)	-	-	(546)
Others	(80,793)	7,214	8,212	(65,367)
	<u>(522,726)</u>	<u>9,698</u>	<u>9,466</u>	<u>(503,562)</u>
<b>Deferred tax assets</b>				
Available-for-sale financial assets	89,757	(4,127)	12,900	98,530
Post-employment benefit obligation	88,038	15,443	(5,862)	97,619
Provision for receivables in excess of tax limit	24,985	-	-	24,985
Government grants	7,733	(2,303)	-	5,430
Loss on valuation of inventories	7,662	7,307	-	14,969
Impairment loss on property, plant and equipment	13,342	25,497	-	38,839
Provision for guarantees	224	-	-	224
Accrued compensated absences	2,167	573	-	2,740
Provision for warranties	3,558	-	-	3,558
Provision for construction loss	1,551	(532)	-	1,019
Long-term employment allowance	11,601	512	-	12,113
Others	88,754	1,585	(5,480)	84,859
	<u>339,372</u>	<u>43,955</u>	<u>1,558</u>	<u>384,885</u>
	<u>₩ (183,354)</u>	<u>₩ 53,653</u>	<u>₩ 11,024</u>	<u>₩ (118,677)</u>

- (6) The Group does not recognize deferred tax assets (liabilities) if it is not probable that the temporary difference will reverse in the foreseeable future, and also the Group does not recognize deferred tax assets (liabilities) for taxable temporary differences associated with investments in subsidiaries and associates, which deferred tax assets (liabilities) are unrealizable due to low potential dividend payment and disposal of investments in the foreseeable future. Therefore, the Group did not recognize deferred income tax assets of KRW 210,872 million as at December 31, 2018 (2017: KRW 698,566 million).

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**25. Other Liabilities**

(1) Details of other liabilities as at December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
<b>Other current liabilities</b>				
Advances	₩	125,937	₩	412,328
Unearned revenues		24,463		19,631
Provision		17,890		12,332
		<u>168,290</u>		<u>444,291</u>
<b>Other non-current liabilities</b>				
Long-term advances	₩	3,495	₩	19,600
Provision		7,520		107,144
		<u>11,015</u>		<u>126,744</u>
	₩	<u>179,305</u>	₩	<u>571,035</u>

(2) Details of provision for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018			
	Construction warranties	Product warranties	Others	Total
Beginning balance	₩ 54,677	₩ 262	₩ 64,537	₩ 119,476
Additional provisions	11,466	30	30,961	42,457
Used during the year	(8,053)	-	(21,809)	(29,862)
Others	-	(38)	(44,637)	(44,675)
Movements from spin-off	(55,790)	-	(6,197)	(61,987)
Ending balance	<u>₩ 2,300</u>	<u>₩ 254</u>	<u>₩ 22,855</u>	<u>₩ 25,409</u>

	(In millions of Korean won)			
	2017			
	Construction warranties	Product warranties	Others	Total
Beginning balance	₩ 50,522	₩ 1,164	₩ 54,201	₩ 105,887
Additional provisions	21,578	266	67,087	88,931
Used during the year	(17,423)	-	(54,289)	(71,712)
Others	-	(1,168)	(2,462)	(3,630)
Ending balance	<u>₩ 54,677</u>	<u>₩ 262</u>	<u>₩ 64,537</u>	<u>₩ 119,476</u>

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**26. Share Capital**

The Group's total number of authorized shares is 200,000,000 shares and the total number of ordinary shares issued is 21,071,025 shares with a par value of KRW 5,000 per share as at December 31, 2018.

**27. Retained Earnings**

(1) Retained earnings as at December 31, 2018 and 2017 consist of the followings:

	(In millions of Korean won)		
	2018	2017	Remark
<b>Legal reserves</b>	₩ 75,670	₩ 59,036	(*1)
<b>Discretionary reserves</b>			
Research and development reserves	16,667	50,000	(*2)
Business stabilization reserves	-	985	
Facility reserves	2,677,000	2,522,199	
<b>Unappropriated retained earnings</b>	3,584,089	510,933	
	<u>₩ 6,353,426</u>	<u>₩ 3,143,153</u>	

(\*1): The Commercial Act of the Republic of Korea requires the Group to appropriate for each financial period, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid until such reserve equals 50% of its issued share capital. The reserve is not available for cash dividends payment but may be transferred to share capital or used to reduce accumulated deficit. When the accumulated legal reserves (the sum of capital reserves and earned profit reserves) are greater than 1.5 times the paid-in capital amount, the excess legal reserves may be distributed (in accordance with a resolution of the shareholders' meeting).

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

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**28. Other Components of Equity**

(1) Other components of equity as at December 31, 2018 and 2017 consist of the followings:

	(In millions of Korean won)			
	2018		2017	
Other capital surplus	₩	316,263	₩	315,975
Treasury shares(*1)		(14,223)		(34,204)
Gain (loss) on valuation of available-for-sale financial assets		(122,858)		4,414
Gain (loss) on valuation of derivatives		613		613
Change in equity from applying the equity method		331		3,694
Cumulative effect of foreign currency translation		(12,183)		(84,790)
Losses on capital reduction(*2)		(4,816,959)		-
Gain on sales of treasury shares		183,913		-
Other capital adjustments		(2,224)		(1,752)
	₩	(4,467,327)	₩	203,950

(\*1): The Group acquired 1,848,851 shares of treasury stock through a merger in 1998 and hold 740,201 shares as a result of the spin-off and acquisition of fraction shares as at December 31, 2018.

(\*2): The Group recognized the difference between carrying amount and fair value of the non-cash assets to be distributed to the stake holders as a result of the spin-off as gain on disposal of discontinued operation. In this regard, other capital injection was reduced.

**29. Revenue**

Details of revenue for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean won)			
	2018		2017	
Merchandise	₩	1,626,159	₩	1,464,059
Finished goods		800,573		745,499
Construction		31,232		27,936
Housing		-		557
Other		533,042		454,796
	₩	2,991,006	₩	2,692,847

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**30. Expenses by Nature**

Cost of sales, selling and administrative expenses and research and development expenses by nature for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean Won)			
	2018		2017	
Changes in inventories of finished goods and work in process and others	₩	(1,529)	₩	26,057
Changes in merchandise		1,404,395		1,319,150
Raw materials and consumables used		372,820		387,962
Employee benefits expenses		316,006		268,593
Depreciation and amortization		79,642		92,276
Electricity expense		7,779		8,315
Export expense		2,084		6,987
Fuel expense		9,216		6,860
Service expense		37,684		67,228
Outsourcing expense		137,707		43,612
Others		481,718		429,882
Total(*1)	₩	<u>2,847,522</u>	₩	<u>2,656,922</u>

(\*1): Total of cost of sales, selling and administrative expenses and research and development expenses in the consolidated statements of profit or loss.

**31. Employee Benefits Expenses**

Employee benefits expenses for the years ended December 31, 2018 and 2017 consist of the followings:

	(In millions of Korean Won)			
	2018		2017	
Salaries	₩	902,578	₩	1,023,952
Employee welfare benefits		108,086		142,367
Pension costs - defined contribution plans		4,112		5,870
Pension costs - defined benefit plans (Note 24)		59,971		59,205
	₩	<u>1,074,747</u>	₩	<u>1,231,394</u>

(\*1): Above amount includes the employee salaries included in gain or loss from discontinued operation.

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**32. Selling and Administrative Expenses**

Selling and administrative expenses for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean Won)			
	<u>2018</u>		<u>2017</u>	
Salaries	₩	106,452	₩	98,373
Post-employment benefits		11,050		7,706
Employee welfare benefits		12,470		12,393
Training		742		1,001
Transportation		8,265		7,865
Communications		2,361		2,531
Taxes and dues		9,070		8,772
Rental expenses		18,044		17,754
Depreciation		12,028		6,617
Amortization		5,326		10,674
Bad debt expenses		22		25,206
Entertainment		6,201		6,895
Advertising expense		15,629		14,906
Service fee		14,742		15,126
Professional service fee		28,149		39,642
Others		26,807		20,081
	₩	<u>277,358</u>	₩	<u>295,542</u>

**33. Other Income and Other Expense**

Details of other income and expense for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean Won)			
	<u>2018</u>		<u>2017</u>	
<b>Other income:</b>				
Gain from bargain purchase	₩	189	₩	-
Gain on disposal of property, plant and equipment		892		202
Reversal of provision for impairment loss on other assets		563		837
Dividend		420		351
Miscellaneous gains		21,771		11,777
	₩	<u>23,835</u>	₩	<u>13,167</u>
<b>Other expense:</b>				
Loss on disposal of property, plant and equipment	₩	4,964	₩	336
Loss on disposal of intangible assets		66		29
Impairment loss on intangible assets		-		6
Other bad debt expenses		3,177		21,007
Donations		1,997		842
Miscellaneous losses		15,500		14,052
	₩	<u>25,704</u>	₩	<u>36,272</u>
<b>Net other income (expense)</b>	₩	<u>(1,869)</u>	₩	<u>(23,105)</u>

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**34. Finance Income and Expense**

(1) Details of finance income and expense for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean Won)	
	2018	2017
<b>Finance income</b>		
Interest income	₩ 1,952	₩ 1,559
Gain on disposal of financial assets	1	777
Gain on foreign currency transactions	22,893	32,637
Gain on foreign currency translation	14,727	25,673
Gain on derivative transactions	8,336	5,932
Gain on valuation of derivatives	-	3,476
Valuation gain on financial assets	2,341	-
	₩ 50,250	₩ 70,054
<b>Finance expense</b>		
Interest expenses	29,231	28,630
Loss on foreign currency transactions	23,846	33,933
Loss on foreign currency translation	24,636	25,604
Loss on derivative transactions	248	2,536
Loss on valuation of derivatives	161	890
Impairment loss on financial assets	-	2,495
Loss on disposal of financial assets	156	-
Valuation loss on financial assets	3,279	-
Nego commission	1,541	815
Loss on disposal of account receivable	94	123
	₩ 83,193	₩ 95,027
<b>Net finance income (expense)</b>	₩ (32,943)	₩ (24,973)

(2) The Group recognizes income and expenses related to exchange differences as finance income and expenses.

**35. Earnings per Share**

(1) The calculation details of basic earnings per share for the years ended December 31, 2018 and 2017 are computed as follows:

	2018	2017
<b>Profit attributable to the ordinary equity holders(*1)</b>		
<b>(In millions of Korean Won)</b>		
Profit or loss of the year from continuing operation	402,164	84,783
Profit or loss of the year from continuing operation	2,955,608	240,791
<b>Weighted average number of ordinary shares outstanding</b>	21,690,071 shares	33,268,604 shares
<b>Earnings per shares (In Korean Won)</b>		
From continuing operation	18,541	2,548
From discontinued operation	136,266	7,238

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- (2) Weighted average number of ordinary shares outstanding for the years ended December 31, 2018 and 2017 are as follows:

(Unit: Per share)

	2018		
	Outstanding ordinary shares	Weighted	Weighted average number of ordinary shares outstanding
Beginning	33,268,604	365 days/365 days	33,268,604
Movements from spin-off	(20,199,733)	214 days/365 days	(11,810,773)
Acquisition of treasury shares	(13,921)	166 days/365 days	(6,314)
In-kind capital increase	7,275,874	12 days/365 days	238,553
Weighted average number of ordinary shares outstanding	20,330,824		21,690,071

(Unit: Per share)

	2017		
	Outstanding ordinary shares	Weighted	Weighted average number of ordinary shares outstanding
Beginning	33,268,604	365days/365days	33,268,604
Movements from spin-off	-	-	-
Acquisition of treasury shares	-	-	-
In-kind capital increase	-	-	-
Weighted average number of ordinary shares outstanding	33,268,604		33,268,604

**36. Dividends**

The dividends paid in 2018 and 2017 were KRW 166,343 million (KRW 5,000 per share), respectively.

A dividend in respect of the year ended December 31, 2018, of KRW 5,000 per share, amounting to a total dividend of KRW 101,654 million, is to be proposed to shareholders at the annual general meeting on March 15, 2019. These consolidated financial statements do not reflect this dividend payable.

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**37. Cash Generated from Operation**

(1) Details of cash generated from operations for the years ended December 31, 2018 and 2017 are as follows:

	(In millions of Korean Won)			
	2018		2017	
	₩	3,610,061	₩	382,829
<b>Profit before income tax</b>				
<b>Adjustments for</b>				
Interest income and expense, net		13,143		80,787
Gain (Loss) on foreign currency translation, net		9,523		(67,093)
Gain (Loss) on valuation of derivatives, net		(979)		(24,711)
Depreciation and amortization		315,670		664,548
Loss (Gain) on disposal of property, plant, equipment, intangible assets, and investment property		5,089		11,712
Impairment loss on property, plant, equipment, intangible assets, and investment property		-		161,043
Bad debt expense and other bad debt expense		32,642		172,036
Reversal of allowance for bad debt		(2,227)		(1,045)
Gain (Loss) on disposal of financial assets, net		4,630		(18,363)
Impairment loss on financial assets		961		17,053
Dividend income		(1,351)		(16,761)
Post-employment benefits		59,971		59,204
Additional provisions		12,009		87,354
Loss on disposal of trade receivables		773		1,758
Gain (loss) from investment in associates		(454,493)		(6,938)
Gain (Loss) on disposal of discontinued operation, net		(2,859,339)		-
Others		(9,035)		68,803
<b>Changes in operating assets and liabilities</b>				
Decrease (increase) in trade receivables		(42,056)		(380,001)
Decrease (increase) in inventories		(110,064)		(243,832)
Increase in other receivables		76,820		(24,773)
Increase in due from customers for contract work		(28,785)		(28,045)
Decrease in other financial assets		9,130		5,602
Decrease (increase) in other assets		(70,316)		(27,120)
Decrease in Currency translation differences		(790)		(210,973)
Increase in trade payables		201,201		(2,886)
Increase (decrease) in other payables		(218,914)		411,625
Decrease in due to customers for contract work		(228,677)		(102,816)
Decrease in other financial liabilities		(4,040)		(30,225)
Payment of warranty expenses		(8,053)		(17,423)
Payment of defined benefits		(13,150)		(3,562)
Others		(15,869)		(60,370)
<b>Cash generated from operations</b>	<b>₩</b>	<b>283,485</b>	<b>₩</b>	<b>857,417</b>

Non-cash involved transaction includes an additional paid-in capital increase amounting to KRW 436,552 million for the current period.

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(2) Changes in liabilities arising from financial activities

(In millions of Korean Won)

	2018		
	Short-term borrowings	Long-term borrowings	Totals
Beginning balance	₩ 4,916,996	₩ 2,345,089	₩ 7,262,085
Cash flow	1,169,995	349,792	1,519,787
Transfer to newly established companies by spin-off	(4,266,619)	(1,683,503)	(5,950,122)
Others(*1)	(248,931)	(68,452)	(317,383)
Ending balance	₩ 1,571,441	₩ 942,926	₩ 2,514,367

(\*1): Others include exchange differences or changes in scope of consolidation to liabilities.

**38. Contingencies and Commitments**

(1) Notes and others provided as collaterals

The Group provided 7 notes and 6 checks as collaterals to the customers and others as at December 31, 2018.

(2) Commitment with financial institution

The Group entered into agreements such as bank overdrafts, trade bill discounts, open local L/C, general loans and others with financial institutions with a limit of KRW 1,465,255 million. Also, the Group entered into trade receivables discount agreements with a limit of KRW 273,649 million as at December 31, 2018.

(3) Guarantees provided for others

The Group has provided payment guarantees for the related parties including associates and etc. (Note 20).

In accordance with Article 530-9 (1) of Commercial Act of the Republic of Korea, the Group is jointly liable to pay the outstanding liabilities resulting from the liabilities as at the date of the spin-off for the newly established companies; Hyosung TNC Corporation, Hyosung Corporation, Hyosung Advanced Materials Corporation and Hyosung Chemical Corporation. The Group is jointly responsible with the newly established companies for the payment guarantee, commitment on cash deficiency support, conditional acceptance on debts and completion of construction that existed before the date of the spin-off.

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(4) Guarantees provided by others

Details of guarantees provided by others as at December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

2018			
Guarantor	Details of guarantees		Guaranteed amounts
The Export-Import Bank Of Korea, Woori bank and etc.	Performance guarantee for contracts	₩	81,140
Machinery Financial Cooperative	Warranty deposit for delivery contracts		71,925
Seoul Guarantee Insurance	Payment guarantee related to construction project		123,955
Korea Software Financial Cooperative	Performance guarantee for contracts		48,217
Construction Guarantee Cooperative and others	Performance guarantee for contracts		6,488

(5) Assets pledged as collaterals

1) Details of assets pledged as collaterals for the Group's borrowings and others as at December 31, 2018 are as follows:

(In millions of Korean Won)

2018					
Secured assets		Carrying amount of borrowings		Maximum pledge amount	Lien
Property, plant and equipments, etc.	KRW	1,350	KRW	38,469	KDB and others
Inventory	USD	43,000,000	USD	43,000,000	Wells Fargo Bank
Other financial business assets	KRW	20,000	KRW	38,000	KDB Capital
Account receivables	KRW	90,981	KRW	90,981	Woori Bank
Other financial assets	KRW	-	KRW	5,621	Machinery Financial Cooperative
Cash and cash equivalent	KRW	170,000	KRW	221,000	Korea Federation of Community Credit Cooperative., Credit Union
Property, plant and equipments					

(\*1): Some of property, plant and equipment were provided as collaterals for the Group's borrowings (collateral amount: KRW 435,839 million) and the borrowings of the Group were transferred to the newly established companies.

2) The equity for Gongdeok Gyeongwoo Development Corporation was provided as collateral for the borrowings amounting to KRW 170,000 million of Gongdeok Gyeongwoo Development Corporation as at December 31, 2018. The equity for Pyeongchang Wind Power Corporation (investments in associates, carrying amount: KRW 9,104 million) was provided as collateral for the borrowings of Pyeongchang Wind Power Corporation. The equity for Soonchon Eco Green Corporation (investments in associates, carrying amount: KRW 0) was provided as collateral for the borrowings amounting to KRW 37,915 million of Soonchon Eco Green Corporation (Notes 19 and 20).

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(6) Pending lawsuits

Details of pending lawsuits as at December 31, 2018 and 2017 are as follows:

	2018			(In millions of Korean Won)
	Number of lawsuits	Claim amounts		Description
Lawsuit as a plaintiff	13 cases	₩	33,670	Administrative litigation on cancellation of corporate tax levy
Lawsuit as a dependent	20 cases		189,476	Claims for damages

The final outcome of the above cases cannot yet be estimated at end of the reporting period. Accordingly, no provision for potential losses arising from the claims was reflected in the consolidated financial statements.

Among the above lawsuits, there were 9 cases (claim amount: KRW 30,068 million) that was filed against the Group in relation to the newly established companies' business as at December 31, 2018.

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**39. Information on Non-controlling Interests**

(1) Changes in Accumulated Non-controlling Interests

The profit or loss allocated to non-controlling interests and accumulated non-controlling interests of subsidiaries that are material to the Group for the years ended December 31, 2018 and 2017 is as follows:

	2018		
	% of non-controlling interests	Profit attributable to non-controlling interests	Accumulated non-controlling interests
Hyosung Capital	2.51%	₩ 600	₩ 10,542
Hyosung TNS	45.98%	9,210	142,454
Hyosung Investment Development Co., Ltd.	41.25%	50,650	24,252
Hyosung Vietnam Co., Ltd.	11.79%	5,894	58,486

The dividend paid to the non-controlling interests was KRW 17,820 million for the year ended December 31, 2018.

(In millions of Korean Won)

	2017		
	% of non-controlling interests	Profit attributable to non-controlling interests	Accumulated non-controlling interests
Hyosung Capital	2.85%	₩ 756	₩ 11,864
Hyosung TNS	45.98%	60	134,789
Hyosung Investment Development Co., Ltd.	41.25%	(3,982)	23,361
Hyosung Vietnam Co., Ltd.	11.79%	13,095	27,816

The dividend paid to the non-controlling interests was KRW 20,130 million for the year ended December 31, 2017.

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

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	2018			
	Hyosung Capital	Hyosung TNS	Hyosung Investment Development Co., Ltd.(*)	Hyosung Vietnam Co., Ltd.
<b>Summarized statement of financial position:</b>				
Current assets	₩ 2,111,083	₩ 393,758	₩ 2,403	₩ 429,144
Non-current assets	288,268	231,247	59,570	445,339
Current liabilities	1,089,207	319,490	3,981	636,789
Non-current liabilities	906,736	502	3,195	658
<b>Summarized statement of comprehensive income:</b>				
Revenues	83,207	725,038	527	1,274,323
Profit for the period	22,979	25,905	43,042	47,753
Total comprehensive income	22,505	22,072	44,388	47,753
<b>Summarized statement of cash flows:</b>				
Cash flows from operating activities	268,705	2,942	43,360	89,714
Cash flows from investing activities	(953)	(20,753)	(150)	(87,770)
Cash flows from financing activities	(303,802)	20,204	(43,200)	(192)
Increase or decrease in cash	(36,049)	2,393	10	(3,891)

(\*1): Stand-alone financial information basis.

(In millions of Korean Won)

	2017			
	Hyosung Capital	Hyosung TNS	Hyosung Investment Development Co., Ltd.(*)	Hyosung Vietnam Co., Ltd.
<b>Summarized statement of financial position:</b>				
Current assets	₩ 222,574	₩ 355,561	₩ 2,171	₩ 335,297
Non-current assets	2,482,796	257,077	58,241	445,573
Current liabilities	1,404,209	328,793	3,987	465,626
Non-current liabilities	899,188	159	2,790	750
<b>Summarized statement of comprehensive income:</b>				
Revenues	222,286	605,005	1,050	1,224,618
Profit for the period	26,532	7,069	40,563	108,650
Total comprehensive income	14,909	7,085	40,409	68,716
<b>Summarized statement of cash flows:</b>				
Cash flows from operating activities	(134,150)	54,305	38,827	195,676
Cash flows from investing activities	(53,622)	(46,197)	9,912	34,008
Cash flows from financing activities	232,108	46,634	(48,752)	(221,921)
Increase or decrease in cash	44,336	54,742	(13)	7,763

(\*1): Stand-alone financial information basis.

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**40. Unconsolidated Structured Entities**

(1) The nature of business unconsolidated structured entities as at December 31, 2018 and 2017, are as follows:

(In millions of Korean Won)

	Purpose of establishment	Financing method	Unconsolidated Structured Entities' Assets	
			2018	2017
Investment fund and investment trust	Enforcement of investment and profit sharing	Issuance of equity shares	₩ 3,971,545	₩ 3,182,494
Mortgage loan	Investment and in real property and collection through sales	Issuance of equity shares and borrowings	1,255,946	1,816,552
Securitization of assets	Securitization and collection of assets	Issuance of ABL and ABCP	190,222	349,610
Investment in vessels	Investment in vessels and profit sharing	Issuance of equity shares and borrowings	39,502	19,830

(2) The risk of interest in unconsolidated structured entities as at December 31, 2018 and 2017, are as follows:

(In millions of Korean Won)

	2018		
	Available-for-sales financial assets	Loan receivable	Totals
Investment fund and investment trust	₩ 234,576	₩ -	₩ 234,576
Mortgage loan	-	231,666	231,666
Securitization of assets	-	36,204	36,204
Investment in vessels	-	10,183	10,183

(In millions of Korean Won)

	2017		
	Available-for-sales financial	Loan receivable	Totals
Investment fund and investment trust	₩ 200,703	₩ -	₩ 200,703
Mortgage loan	-	101,856	101,856
Securitization of assets	-	45,462	45,462
Investment in vessels	-	9,742	9,742

Maximum exposure to loss on interest in unconsolidated structured entities as at December 31, 2018 and 2017 is equal to the book amount.

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**41. Discontinued Operation**

(1) Spin-off

As a result of the spin-off dated on June 1, 2018, the controlling 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 Corporation, Hyosung Advanced Materials Corporation and Hyosung Chemical Corporation that operate its business in textile and trading, heavy industries and construction, industrial materials and chemical products, respectively. In accordance with Article 530-9 (1) of Commercial Act of the Republic of Korea, the newly established companies and surviving company are jointly liable to pay the liabilities of the Group existed before the spin-off. The details of spin-off are presented as follows:

<b>Entity type</b>	<b>Company name</b>	<b>Business segment</b>
Surviving company after spin-off	Hyosung	The rest of all businesses except for textile and trading, heavy industries and construction, industrial materials and chemical products
Newly established company by spin-off	Hyosung TNC	Textile and trading
	Hyosung Heavy Industries	Heavy industries and construction
	Hyosung Advanced Material	Industrial materials
	Hyosung Chemical	Chemical products

The continuing operation and discontinued operation were presented as separate line items in the consolidated statements of comprehensive income, respectively and the consolidated statement of comprehensive income herein presented as comparative purpose was restated.

(2) Gain or loss from discontinued operation included in the statements of comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

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	2018	2017
Revenue	₩ 4,315,495	₩ 9,853,562
Cost of sales	3,780,087	8,478,930
Gross profit	535,408	1,374,632
Selling and administrative expenses	231,373	538,879
Research and development expenses	41,913	100,870
Operating profit	262,122	734,883
Other income	25,114	53,674
Other expenses	(17,461)	(338,111)
Finance income	82,734	372,769
Finance expenses	(165,979)	(435,170)
Investment gain (loss) on associates	(3,043)	(552)
Profit before income tax	183,487	387,493
Income tax benefit expense	80,917	127,342
Net profit for the period from discontinued operation	102,570	260,151
Gain from disposal of discontinued operation	2,859,339	-
Profit for the year from discontinued operation	₩ 2,961,909	₩ 260,151

(3) Cash flows incurred from the discontinued operation for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

	2018	2017
Cash flows from operating activities	₩ (46,965)	₩ 414,517
Cash flows from investing activities	(581,938)	(327,300)
Cash flows from financing activities	879,396	77,778
Net cash flows	₩ 250,493	₩ 164,995

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- (4) The details of assets and liabilities transferred to the newly established companies as at December 31, 2018 are as follows:

	(In millions of Korean Won)	
	<b>2018</b>	
	₩	
<b>Current assets</b>		4,518,707
Cash and cash equivalents	1,109,215	
Trade and other receivables	1,671,346	
Due from customers for contract work	168,731	
Other financial assets	43,125	
Other current assets	204,526	
Inventories	1,311,435	
Current income tax assets	10,329	
<b>Non-current assets</b>		5,836,686
Long-term trade and other receivables	103,866	
Property, plant and equipment	4,852,032	
Investment property	350,462	
Intangible assets	187,539	
Investments in subsidiaries and associates	13,681	
Other non-current financial assets	201,821	
Other non-current assets	32,271	
Deferred tax assets	95,014	
<b>Total assets</b>		10,355,393
<b>Current liabilities</b>		6,027,500
Trade and other payables	1,317,105	
Due to customers for contract work	122,819	
Borrowings	4,266,619	
Other financial liabilities	76	
Current tax liabilities	76,343	
Other current liabilities	244,538	
<b>Non-current liabilities</b>		2,112,870
Long-term trade and other payables	230,022	
Long-term borrowings	1,683,503	
Other non-current financial liabilities	47,809	
Post-employment benefit obligation	68,522	
Deferred tax liabilities	1,225	
Other non-current liabilities	81,789	
<b>Total liabilities</b>		8,140,370
<b>Net assets</b>		2,215,023

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(5) Changes in equity resulting from the spin-off

	(In millions of Korean Won)						
	Share Capital	Share Premium	Retained Earnings	Other Component of Equity	Sub-total	Non-controlling interests	Total
Movements from spin-off	₩ (106,612)	₩ (79,434)	₩ -	₩ (4,549,448)	₩ (4,735,494)	₩ 2,693	₩ (4,732,801)

(6) Disposal gain or loss from discontinued operation

In case where the non-cash assets that are equally treated by the all owners holding the same type of equity instruments are distributed for free, the Group recognizes the dividend payables at fair value at the time when the Group declares the distribution and has had an obligation to distribute the relevant assets and liabilities. Accordingly, the Group determined the fair value of the non-cash assets distributed by using the estimates and valuation model based on the judgment of the independent external valuation agency. The Group has recognized the difference between the non-cash assets distributed and the recognized dividend payables at the time of distribution as gain or loss from discontinued operation.

	(In millions of Korean Won)	
	<b>2018</b>	
Fair value of spin-off segment	₩	5,003,005
Carrying amount of spin-off segment		(2,215,023)
Non-controlling interests for spin-off division		134,187
Accumulated other comprehensive income of spin-off segment		(62,830)
Gain from disposal of discontinued operation		2,859,339

In the meanwhile, gain or loss from discontinued operation does not involve the cash inflows and the fair value on the non-cash assets distributed is accounted for as other equity adjustment (deduction of equity). Therefore, equity increase effect resulting from the disposal gain or loss was not accounted for. The key assumptions used for the fair value measurement of non-cash assets distributed are as follows:

	(In millions of Korean Won)	
	<b>2018</b>	
Fair value of spin-off segment	₩	5,003,005
Carrying amount of spin-off segment		(2,215,023)
Non-controlling interests for spin-off division		134,187
Accumulated other comprehensive income of spin-off segment		(62,830)
Gain from disposal of discontinued operation	₩	2,859,339