

Hyosung Corporation

Separate Financial Statements

December 31, 2018

(With Independent Auditor's Report Thereon)

Hyosung Corporation

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

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

Basis for Opinion

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

Emphasis of Matters

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

restated the prior period's separate statement of profit or loss presented herein as comparative purpose.

Key Audit Matters

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

(1) Accounting for spin-off

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

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

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

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

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

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

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

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

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

(2) Accounting for step acquisition of associates' equity

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

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

Investments in subsidiaries and associates account for 63% of the total assets.

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

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

- Review the appropriateness of acquisition cost of investments in associates

Other Matters

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

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

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with Korean IFRSs, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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 separate financial statements and may result in modifications to this report.

(Attachment) Separate Financial Statements

Hyosung Corporation

The 64th period

From January 1, 2018 to December 31, 2018

The 63rd period

From January 1, 2017 to December 31, 2017

"The attached separate financial statements were prepared by the Company."

CEO Kyu-Young Kim of Hyosung Corporation

| | | |
|----------------------------|----------------|--|
| The Headquarter | Address | 119 Mapo-daero, Mapo-gu, Seoul, Korea |
| | Tel | (02) 707-7000 |

Hyosung Corporation
Separate Statements of Financial Position
As at December 31, 2018 and 2017

(In millions of Korean Won)

| | Notes | 2018 | 2017 |
|--|----------------|--------------------|--------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 4,8,9,10 | ₩ 11,916 | ₩ 46,622 |
| Trade and other receivables | 4,7,8,11,21,39 | 42,197 | 963,038 |
| Due from customers for contract work | 4 | 43 | 139,977 |
| Other financial assets | 4,5,8,12 | - | 18,513 |
| Other current assets | 13 | 6,931 | 122,461 |
| Inventories | 14,18 | 17,569 | 642,743 |
| | | <u>78,656</u> | <u>1,933,354</u> |
| Non-current assets | | | |
| Long-term trade and other receivables | 4,8,11,21 | 46,009 | 328,125 |
| Property, plant and equipment | 15,18,39 | 531,301 | 3,339,790 |
| Investment property | 16 | 6,176 | 427,037 |
| Intangible assets | 17 | 37,145 | 24,430 |
| Investments in subsidiaries and associates | 20,40 | 1,328,415 | 1,521,103 |
| Other non-current financial assets | 4,5,8,10,12,39 | 68,484 | 242,214 |
| Other non-current assets | 13 | 24,681 | 28,231 |
| | | <u>2,042,211</u> | <u>5,910,930</u> |
| Total assets | | <u>₩ 2,120,868</u> | <u>₩ 7,844,283</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 4,8,19,21,22 | ₩ 75,379 | ₩ 1,418,148 |
| Due to customers for contract work | | 1 | 76,704 |
| Borrowings | 4,8,23 | 837 | 1,318,461 |
| Other financial liabilities | 4,5,8,12 | 120 | 3,198 |
| Current tax liabilities | | 8,631 | 45,606 |
| Other current liabilities | 26 | 2,741 | 249,004 |
| | | <u>87,709</u> | <u>3,111,122</u> |
| Non-current liabilities | | | |
| Long-term trade and other payables | 4,8,19,21,22 | 16,314 | 204,618 |
| Long-term borrowings | 4,8,23 | 1,035 | 811,362 |
| Other non-current financial liabilities | 4,5,8,12 | - | 584 |
| Post-employment benefit obligation | 24 | 4,902 | 15,605 |
| Deferred tax liabilities | 25 | 140,972 | 104,615 |
| Other non-current liabilities | 26 | 601 | 122,666 |
| | | <u>163,824</u> | <u>1,259,450</u> |
| Total liabilities | | <u>251,533</u> | <u>4,370,572</u> |
| Equity | | | |
| Share capital | 27 | 105,355 | 175,587 |
| Share premium | | 451,188 | 130,826 |
| Retained earnings | 28 | 5,828,979 | 2,937,089 |
| Other components of equity | 29 | (4,516,187) | 230,208 |
| Total equity | | <u>1,869,336</u> | <u>3,473,711</u> |
| Total liabilities and equity | | <u>₩ 2,120,868</u> | <u>₩ 7,844,283</u> |

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

Hyosung Corporation
Separate Statements of Profit or Loss
For the years ended December 31, 2018 and 2017

(In millions of Korean Won, except earnings per share)

| | Notes | 2018 | | 2017 | |
|--|-------------|------|-----------|------|-----------|
| Revenue | 21,30 | ₩ | 352,311 | ₩ | 211,252 |
| Cost of sales | 21,31,32 | | 323,290 | | 191,913 |
| Gross profit | | | 29,021 | | 19,340 |
| Selling and administrative expenses | 21,31,32,33 | | 51,547 | | 46,171 |
| Research and development expenses | 31,32 | | 143 | | 445 |
| Operating profit (loss) | | | (22,668) | | (27,277) |
| Other income | 8,21,34 | | 44,802 | | 44,476 |
| Other expenses | 8,21,34 | | (3,972) | | (23,812) |
| Finance income | 8,21,35 | | 14,774 | | 17,091 |
| Finance expenses | 8,21,35 | | (14,811) | | (10,954) |
| Impairment loss on investment in subsidiaries and associates | 20 | | (500) | | (630) |
| Profit before income tax | | | 17,624 | | (1,107) |
| Income tax benefit expense (benefit) | 25 | | (1,071) | | (108,561) |
| Profit for the year from continuing operation | | | 18,695 | | 107,454 |
| Profit for the year from discontinued operation | 40 | | 3,000,820 | | 208,614 |
| Profit for the year | | ₩ | 3,019,516 | ₩ | 316,067 |
| | | | | | |
| Basic earnings per share from continuing operation | 36 | ₩ | 862 | ₩ | 3,230 |
| Basic earnings per share from discontinued operation | 36 | ₩ | 138,350 | ₩ | 6,271 |

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

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

(In millions of Korean Won)

| | Notes | 2018 | 2017 |
|--|-------|--------------------|------------------|
| Profit for the year | | ₩ 3,019,516 | ₩ 316,067 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | - | - |
| Financial assets measured at fair value through other comprehensive come | 29 | (93,371) | - |
| Remeasurements of net defined benefit liability | 24 | 1,357 | 12,366 |
| Items that may be subsequently reclassified to profit or loss | | - | - |
| Reclassification due to disposal of available-for-sale financial assets | 12,29 | - | (23,883) |
| Exchange difference of translation of foreign operations | 29 | (901) | (1,912) |
| Other comprehensive income for the period, net of tax | | <u>(92,915)</u> | <u>(13,429)</u> |
| Total comprehensive income for the year | | <u>₩ 2,926,601</u> | <u>₩ 302,638</u> |

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

Hyosung Corporation
Separate Statements of Changes in Equity
For the years ended December 31, 2018 and 2017

(In millions of Korean Won)

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

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

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

(In millions of Korean Won)

| | Notes | 2018 | 2017 |
|--|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 38 | ₩ (89,122) | ₩ 587,286 |
| Income taxes paid | | (39,424) | (93,498) |
| Interest paid | | (30,707) | (70,018) |
| Interest received | | 502 | 822 |
| Dividend received | | 45,081 | 191,890 |
| Net cash inflow from operating activities | | (113,670) | 616,481 |
| Cash flows from investing activities | | | |
| Collection of loans | | 1,097 | 2,175 |
| Decrease in short-term financial instrument | | 208 | 31,379 |
| Proceeds from sales of available-for-sales financial assets | | 1 | 823 |
| Collection of long-term loans | | 13,081 | 27,429 |
| Decrease in long-term deposit | | 7,038 | 7,954 |
| Proceeds from sale of property, plant and equipment | | 2,778 | 2,254 |
| Government grants received | | 3,499 | 343 |
| Proceeds from sales of investment property | | - | 56,000 |
| Proceeds from sales of intangible assets | | 222 | 1,212 |
| Proceeds from sales of investment in subsidiaries and associates | | - | 7 |
| Decrease in long-term financial instrument | | 4,290 | 318 |
| Cash flows from merger | | - | 22,617 |
| Increase in short-term loans | | (569) | (2,480) |
| Acquisition of available-for-sales financial assets | | (4,354) | (71,858) |
| Increase in long-term loans | | (253,195) | (162,475) |
| Increase in long-term deposits | | (3,672) | (17,374) |
| Acquisition of property, plant and equipment | | (108,392) | (172,975) |
| Acquisition of investment property, plant and equipment | | - | (780) |
| Acquisition of intangible assets | | (7,625) | (4,545) |
| Acquisition of subsidiaries and associates | | (219,861) | (883) |
| Increase in short-term financial instrument | | - | (29,075) |
| Increase in long-term financial instrument | | (4,568) | (2,482) |
| Acquisition of other investment assets | | (396) | (22) |
| Net cash outflow from investing activities | | (570,419) | (312,439) |
| Cash flows from financing activities | | | |
| Proceeds from short-term borrowings | | 5,764,984 | 6,469,089 |
| Proceeds from long-term borrowings | | 247,326 | 60,000 |
| Proceeds from issuance of debentures | | 269,136 | - |
| Government grants received | | 1,498 | 1,830 |
| Repayment of short-term borrowings | | (4,647,804) | (6,188,062) |
| Repayment of current portion of long-term borrowings | | (136,671) | (472,752) |
| Repayment of government grants | | (1,696) | (1,850) |
| Dividends paid | | (166,343) | (166,343) |
| Acquisition of treasury shares | | (787) | - |
| Share issuance cost | | (377) | - |
| Cash outflows from spin-off | | (679,882) | - |
| Net cash outflow from financing activities | | 649,383 | (298,088) |
| Net increase(decrease) in cash and cash equivalents | | (34,706) | 5,954 |
| Cash and cash equivalents at the beginning of the period | | 46,622 | 40,667 |
| Cash and cash equivalents at the end of the period | | ₩ 11,916 | ₩ 46,622 |

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

Hyosung Corporation
Notes to the Separate Financial Statements
December 31, 2018 and 2017

1. General Information

Hyosung Corporation (the “Company”) was 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 Company was separated into the surviving company; Hyosung Corporation that manages the equities and investments of the subsidiaries, and newly established companies; Hyosung TNC Corporation, Hyosung Heavy Industries, Hyosung Advanced Materials and Hyosung Chemical Corporation that operate business in textile and trading, heavy industries and construction, industrial materials and chemical products, respectively.

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

| Shareholders | (In number of shares and percentage) | |
|-------------------------|--------------------------------------|----------------------------|
| | Number of Shares | Percentage of ownership(%) |
| 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 Gwang-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>100.00</u> |

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these separate 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 Company 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 separate 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 Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policy and Disclosures

(1) New and amended standards and interpretations adopted by the Company

The Company 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 Company 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 Company 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 Company 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

Hyosung Corporation
Notes to the Separate Financial Statements
December 31, 2018 and 2017

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.

1) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow.

Debt instruments with contractual cash flows held under a business model that is intended to receive contractual cash flows and consist solely of interest on principal and principal balance are subsequently measured at amortized cost (Amortized Cost).

Debt instruments with contractual cash flows held only under the business model for both receipt and sale of contractual cash flows and consisting solely of interest on principal and principal balance are subsequently measured at fair value and are recognized in other comprehensive income (FVOCI).

All other debt instruments and equity instruments are subsequently measured at fair value and are recognized through profit or loss (FVPL).

Notwithstanding the foregoing, the Company may make the following irrevocable choice or designation at the time of initial recognition of a financial asset:

The entity may elect to present subsequent changes in the fair value of the investment in equity instruments that are not short-term trading items and that are not contingent consideration recognized by the acquirer in the business combinations for which the entity applies IFRS 1103 in other comprehensive income.

A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch.

The debt instrument that meets the condition to be recognized as amortized costs or fair value through other comprehensive income and designated to fair value through profit or loss during the reporting period does not exist.

When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to retained earnings. On the other hand, for the equity instrument designated to fair value through other comprehensive income, it is not allowed to reclassify the cumulative other comprehensive income to profit and loss. Debt instruments measured at amortized costs or fair value through other comprehensive income are subject to the impairment.

Management has reviewed and assessed the financial assets held by the Company based on facts and circumstances that existed at the date of initial application and, as the Company first applied IFRS 1109, have determined that the following effects will occur:

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Debt instrument that was classified as available-for-sales security in accordance with Korean IFRS 1039 and held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest was classified as fair value through other comprehensive income. fair value change from such debt instrument is recognized as the cumulative income(loss) until such instruments are derecognized or reclassified.

Financial instruments that was classified as held-for-maturity, loan or receivable and measured at amortized costs in accordance with Korean IFRS 1039 and held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest are recognized as amortized costs under Korean IFRS 1109 as well.

Financial assets that was classified as assets at fair value through profit or loss in accordance with Korean IFRS 1039 are classified as fair value through profit or loss under Korean IFRS 1109 as well.

The details of reclassification of financial assets in accordance with Korean IFRS 1109 are presented in Note 5. Due to the changes in the classification of debt instrument and equity instrument, valuation loss from available-for-sales financial assets of KRW 42,154 million that was recognized as other comprehensive income that is subsequently reclassified to profit or loss have been classified to fair value through other comprehensive income that is not subsequently reclassified to profit or loss.

Available-for-sales financial assets of KRW 38,924 million at beginning of the period has been reclassified to financial assets measured at FVPL.

2) Impairment on Financial Assets

Korean IFRS 1109 requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. That is, a credit event does not necessarily have to occur before the credit loss is recognized.

The Company recognizes ECL impairment loss allowance to (i) debt instrument measured at amortized cost or fair value through other comprehensive income, (ii) lease receivables, (iii) contract assets, (iv) loan commitments and certain financial guarantee contracts that are subject to the impairment under Korean IFRS 1109. Especially, lifetime expected losses will be recognized on financial assets for which there is a significant increase in credit risk after initial recognition. In the meanwhile, 12-month expected credit losses will be recognized in case where there is no significant increase in credit risk after initial recognition (except for the financial assets that is credit-impaired at initial recognition). For trade receivables, contract assets and lease receivable, the Company applies the practical expedient to provide for expected credit losses prescribed by Korean IFRS 1109, which requires the use of the lifetime expected loss provision.

3) Classification and Measurement of Financial Liabilities

Major changes due to the adoption of Korean IFRS 1109 are the accounting treatment on change in the fair value of the financial liabilities measured at FVPL attributable to changes in the credit risk. The Company recognizes the fair value through profit or loss on the change in fair value attributable to changes in the credit risk, unless this

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treatment of the credit risk component creates or enlarges measurement mismatch. Amounts presented in other comprehensive are not subsequently transferred to profit or loss but would be reclassified to retained earnings at de-recognition of the financial liability. Under K-FIRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss.

Except for the above-mentioned, there is no significant impact on the classification and measurement of financial liabilities due to the adoption of Korean IFRS 1109.

4) Hedge Accounting

The new hedge accounting model provides three types of hedge accounting method. The new hedge accounting model introduces more flexibility on aligning eligible transaction for hedge accounting and enlarging the eligible hedging method and non-financial risk factor. Furthermore, the rule on the evaluation on the effectiveness of hedging was revised on a whole to adopt the “economical relationship” principle between the hedging objectives and hedging method and the additional disclosure requirement in relation to the Company’s risk management activity was introduced.

5) 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 | Korean IFRS 1109 | |
| Listed stock | Available-for-sale financial assets | Financial asset measured at FVOCI | ₩ 174,131 | ₩ - | ₩ 174,131 | |
| Unlisted stock | Available-for-sale financial assets | Financial asset measured at FVOCI(*1) | 20,645 | - | 21,379 | |
| Derivative instrument contract | Derivative assets | Financial asset measured at FVOCI(*2) | 38,924 | - | 41,766 | |
| Short & long-term loans | Loan and receivables | Financial asset measured at FVPL(*2) | 23,053 | - | 19,577 | |
| Loans | Loan and receivables | Financial asset measured at AC | 151,550 | - | 151,550 | |
| Deposits | Loan and receivables | Financial asset measured at AC | 174,511 | - | 174,511 | |
| Cash and cash equivalents | Loan and receivables | Financial asset measured at AC | 46,622 | - | 46,622 | |
| Trade and other receivables | Loan and receivables | Financial asset measured at AC | 965,101 | - | 965,101 | |
| Financial instrument | Loan and receivables | Financial asset measured at AC | 3,974 | - | 3,974 | |
| Trade and other payables | Financial liabilities measured at AC | Financial liabilities measured at AC | 1,615,462 | - | 1,615,462 | |
| Trade and other payables | Other financial liabilities | Financial liabilities measured at AC | 7,304 | - | 7,304 | |
| Derivative instrument contract | Derivative liabilities | Financial liability measured at FVPL | 3,782 | - | 3,782 | |
| Borrowings and bonds | Financial liabilities measured at AC | Financial asset measured at AC | 1,880,378 | - | 1,880,378 | |
| Borrowings and bonds | Other financial liabilities | Financial asset measured at AC | 249,445 | - | 249,445 | |

(*1): The Company recognizes valuation gain of KRW 734 million by remeasuring the unlisted stock with fair value.

(*2): The Company recognizes valuation loss of KRW 634 million by remeasuring the invested capital fund with fair value.

- Amendments to Korean IFRS 1115 Revenue from Contracts with Customers

The Company 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

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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 separate financial statements.

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

| | (In millions of Korean Won) | | |
|--------------------------|-----------------------------------|-------------|-------------------------------|
| | December 31, 2017 (Unadjusted) | Adjustments | January 1, 2018 (Adjusted) |
| Other current assets | ₩ 122,462 | ₩ (4,352) | ₩ 118,110 |
| Inventories | 642,743 | (1,973) | 640,770 |
| Deferred tax liabilities | 104,615 | (1,530) | 103,085 |
| Retained earnings | 2,937,089 | (4,794) | 2,932,295 |

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

| | (In millions of Korean Won) | | |
|-------------------------------------|-----------------------------------|-------------|-------------------------------|
| | December 31, 2017 (Unadjusted) | Adjustments | January 1, 2018 (Adjusted) |
| Cost of sales | ₩ 321,017 | ₩ 2,273 | ₩ 323,290 |
| Selling and administrative expenses | 53,820 | (2,273) | 51,547 |

- (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 Company 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 Company 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 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 Company 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.

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- 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 Company 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 Company 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 Company 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 Company is analyzing a financial impact on the financial statements as at December 31, 2018.

- Annual Improvements to Korean IFRS 2015 – 2017 Cycle

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, Korean IFRS 1012 Income Tax and Korean IFRS 1023 Borrowing Costs have been amended. The Company is analyzing a financial impact on the financial statements as at December 31, 2018.

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

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

(Summarized statement of financial position)

(In millions of Korean Won)

| | January 1, 2018 | | | | | |
|-------------------------|------------------------|-----------|--------------------|---------|-----------------|-----------|
| | Unadjusted | | Adjustments | | Adjusted | |
| Current assets | ₩ | 1,933,354 | ₩ | (6,324) | ₩ | 1,927,029 |
| Non-current assets | | 5,910,930 | | 100 | | 5,911,030 |
| Total assets | | 7,844,283 | | (6,224) | | 7,838,059 |
| Current liabilities | | 3,111,122 | | - | | 3,111,122 |
| Non-current liabilities | | 1,259,450 | | (1,506) | | 1,257,944 |
| Total liabilities | | 4,370,572 | | (1,506) | | 4,369,066 |
| Total equity | | 3,473,711 | | (4,718) | | 3,468,993 |

2) The details of impacts in each component of equities resulting from changes in accounting policy noted above as at the date of initial recognition are as follows;

(In millions of Korean Won)

| | January 1, 2018 | | | | | |
|--|--------------------------|-----------|-----------------------------------|----------|--------------|-----------|
| | Retained earnings | | Other components of equity | | Total | |
| Balance at December 31, 2017 | ₩ | 2,937,089 | ₩ | 230,208 | ₩ | 3,167,298 |
| Korean IFRS 1109 1st adoption | | | | | | |
| Effect from classification & measurement | | (634) | | 734 | | 100 |
| Effect of impairment loss | | 56,246 | | (56,246) | | - |
| Income tax effect | | (13,458) | | 13,434 | | (24) |
| Sub-total | | 42,154 | | (42,078) | | 76 |
| Korean IFRS 1115 1st adoption | | | | | | |
| Capitalization of contract cost | | (6,324) | | - | | (6,324) |
| Income tax effect | | 1,530 | | - | | 1,530 |
| Sub-total | | (4,794) | | - | | (4,794) |
| January 1, 2018 (Initiative date) | ₩ | 2,974,449 | ₩ | 188,130 | ₩ | 3,162,580 |

2.3 Subsidiaries and Associates

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027, Separate Financial Statements. Investment in subsidiaries and associates are recognized at cost under the direct equity method. The Company applied the carrying amounts under the previous K-GAAP at the

time of transition to the Korean IFRS. The Company recognizes dividend income from subsidiaries and associates in profit or loss when its right to receive the dividend is established.

2.4 Foreign Currency Translation

(1) Functional and presentation currency

Items included in the separate financial statements are measured using the currency of the primary economic environment in which each entity operates (the “functional currency”). The separate financial statements are presented in Korean won, which is the Company’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 statement of financial position only when the Company 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 Company 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, 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

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 and interest
- 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 amortized costs

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 Company has transferred substantially all the risks and rewards of ownership. If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company 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 Company 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 Company 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.

2.6 Derivative Instruments

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss within “other income(expenses)”.

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.

2.8 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.

2.9 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 | 40 years |
| Structures | 40 years |
| Machinery | 8~10 years |
| Vehicles | 5 years |
| Tools and equipment | 5 years |
| Others | 4 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.

2.10 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.

2.11 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 Company 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.

2.12 Intangible Assets

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

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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 Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

| | <u>Useful Life</u> |
|-------------------------|--------------------|
| Industrial rights | 5-10 years |
| Facility usage right | 10-25 years |
| Other intangible assets | 5 years |

2.13 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 Company depreciates investment properties, except for land, using the straight-line method over their useful lives of 40 years.

2.14 Impairment of Non-financial Assets

Intangible assets that have an indefinite useful life are tested for impairment if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount (that is the higher of an asset's fair value less costs of disposal and value-in-use). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.15 Financial Liabilities

Financial liabilities are recognized in the statement of financial position only when the Company 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

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 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 Company nets off the financial assets and liabilities and presents the net amount in the statement of financial position when the Company 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.

2.16 Financial Guarantee Contracts

Financial guarantee contracts provided by the Company 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

2.17 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.

2.18 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.

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 Company 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 Company recognizes a deferred tax liability associated with investments in subsidiaries, associates, except to the extent that the Company 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 Company 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.

2.19 Employee Benefits

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

Under the defined contribution plan that the Company 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.

2.20 Revenue Recognition

1) Identification of Performance Obligation

In accordance with Korean IFRS 1115, the Company 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 Company's performance creates or enhances an assets that the customer controls as the assets is created or enhanced or the Company's performance does not create an asset with an alternative use to the Company and the Company 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 Company recognizes the incremental costs of obtaining a contract with customer as an asset if the Company 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 Company estimates an amount of variable consideration by using the expected value which the Company expects to better predict the amount of consideration. The Company 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 Company does not expect to be entitled.

5) Significant financial elements

With implementation of Korean IFRS 1115, when calculating the transaction price, the Company 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 Company has a significant financial benefit when the goods or services are transferred due to the agreed payment date between contracting parties.

2.21 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.

2.22 Operating Segment

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker (Note 6). The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

2.23 Approval of Separate Financial Statements

The separate 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 the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The Company 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) Income taxes

As the Company'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 25).

If certain portion of the taxable income is not used for three years from 2018 for investments or increase in wages or dividends in accordance with the Tax System for Recirculation of Corporate Income, the Company 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 Company's income tax is dependent on the investments, increase in wages and dividends. Therefore, there is an uncertainty measuring the final tax effects.

(2) 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 Company 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).

(3) Provisions

As at December 31, 2018, the Company recognizes provisions for warranties and others. These provisions are estimated based on past experience (Note 26).

(4) 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 24).

4. Financial Risk Management

The Company'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 Company'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 Company. The Company 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 Company operates internationally and is exposed to foreign exchange risk arising from foreign currency exposures, primarily with respect to the US dollar, Euro and Japanese yen. 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 Company 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 Company'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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(In millions of Korean won)

| | | Impact on pre-tax profit | | | |
|-----------|--------------|---------------------------------|---------|-------------|----------|
| | | 2018 | | 2017 | |
| US Dollar | Strengthened | ₩ | (1,536) | ₩ | (49,025) |
| | Weakened | | 1,536 | | 49,025 |
| EURO | Strengthened | | (4) | | 627 |
| | Weakened | | 4 | | (627) |
| JPY | Strengthened | | (6) | | (5,725) |
| | Weakened | | 6 | | 5,725 |
| Others | Strengthened | | (3) | | 4,087 |
| | Weakened | | 3 | | (4,087) |

(2) Price Risk

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

The Company'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 Company'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)

| | | Impact on equity | | | |
|----------|---|-------------------------|---|-------------|--|
| | | 2018 | | 2017 | |
| Increase | ₩ | 1,688 | ₩ | 39,597 | |
| Decrease | | (1,688) | | (39,597) | |

(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 Company is exposed to interest rate risk due to its borrowings in fixed and floating interest rates. The Company'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 Company'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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(In millions of Korean won)

| | Impact on pre-tax profit | | | |
|----------|---------------------------------|------|-------------|---------|
| | 2018 | | 2017 | |
| Increase | ₩ | (12) | ₩ | (5,905) |
| Decrease | | 12 | | 5,905 |

4.1.2 Credit Risk

Credit risk is managed on an 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 Company 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) | ₩ | 11,886 | ₩ |
| Trade and other receivables | | 42,197 | | 963,038 |
| Due from customers for contract work | | 43 | | 139,977 |
| Other financial assets | | - | | 18,513 |
| Long-term trade and other receivables | | 46,009 | | 328,125 |
| Other non-current financial assets | | 68,484 | | 242,214 |

(*1): The difference with ‘cash and cash equivalents’ in the statement of separate financial position is cash on hand.

4.1.3 Liquidity Risk

The Company monitors the forecasts on the Company’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 Company does not breach borrowing limits or covenants (where applicable). The Company considers short, mid and long-term financial plan, compliance on commitment and target financial ratio on liquidity forecast.

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Details of the Company'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 | Over 5 years | Total |
| Trade and other payables | ₩ 74,584 | ₩ 16,197 | ₩ 718 | ₩ 91,499 |
| Borrowings (including interest expense) | 838 | 546 | 492 | 1,876 |
| Derivative financial instruments(*1) | 120 | - | - | 120 |
| | <u>₩ 75,542</u> | <u>₩ 16,743</u> | <u>₩ 1,210</u> | <u>₩ 93,495</u> |

(In millions of Korean won)

| | 2017 | | | |
|--|--------------------|--------------------|-----------------|--------------------|
| | Less than 1 year | Between 1 and | Over 5 years | Total |
| Trade and other payables | ₩ 1,411,088 | ₩ 212,232 | ₩ 13,307 | ₩ 1,636,627 |
| Borrowings (including interest expense) | 1,355,101 | 833,996 | 19,604 | 2,208,701 |
| Derivative financial instruments(*1) | 3,782 | - | - | 3,782 |
| | <u>₩ 2,769,971</u> | <u>₩ 1,046,228</u> | <u>₩ 32,911</u> | <u>₩ 3,849,110</u> |

(*1): The Company's trading portfolio derivative instruments have been included at their fair value of KRW 120 million (2017: KRW 3,782 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 Company 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 39).

4.2 Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so the Company 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 Company may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company 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 separate statement of financial position plus net debt.

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

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(In millions of Korean won)

| | 2018 | | 2017 | |
|---------------------------------|------|-----------|------|-----------|
| Total borrowings | ₩ | 1,872 | ₩ | 2,129,823 |
| Less: cash and cash equivalents | | (11,916) | | (46,622) |
| Net debt (A) | | (10,044) | | 2,083,201 |
| Total equity (B) | | 1,869,336 | | 3,473,711 |
| Total capital (A+B=C) | ₩ | 1,859,292 | ₩ | 5,556,912 |
| Gearing ratio (A/C) | | - | | 37.49% |

5. Fair Value of Financial Instrument

5.1 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 |
| Asset | | | | |
| Financial asset measured at FVOCI (Listed stock) | ₩ 7,425 | ₩ - | ₩ - | ₩ 7,425 |
| Financial asset measured at FVOCI (Non-listed stock) | - | - | 4,056 | 4,056 |
| Financial asset measured at FVOCI (Debt instruments) | - | - | 1,158 | 1,158 |
| Financial asset measured at FVPL (Non-listed stock) | - | - | 51,804 | 51,804 |
| | <u>₩ 7,425</u> | <u>₩ -</u> | <u>₩ 57,018</u> | <u>₩ 64,443</u> |
| Liability | | | | |
| Financial liability measured at FVPL (Derivative financial liabilities) | ₩ - | ₩ 120 | ₩ - | ₩ 120 |

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(*1): The Company 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.

(In millions of Korean won)

| | 2017 | | | |
|-------------------------------------|------------------|-----------------|----------------|------------------|
| | Level 1 | Level 2 (*1) | Level 3 | Total |
| Asset | | | | |
| Available-for-sale financial assets | ₩ 174,131 | ₩ - | ₩ - | ₩ 174,131 |
| Derivative financial assets | - | 19,577 | 3,476 | 23,053 |
| | <u>₩ 174,131</u> | <u>₩ 19,577</u> | <u>₩ 3,476</u> | <u>₩ 197,184</u> |
| Liability | | | | |
| Derivative financial liabilities | ₩ - | ₩ 3,782 | ₩ - | ₩ 3,782 |

(*1): The Company 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.

5.2 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.

5.3 Valuation Techniques and the Inputs

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

(In millions of Korean won)

| | 2018 | | | | |
|---|-------------------|-------|----------------------|------------------------------|-----------------|
| | Fair value | Level | Valuation techniques | Inputs | Range of Inputs |
| Derivative | | | | | |
| Currency forward | ₩ (Liability) 120 | 2 | Market Approach | Exchange rate, Discount rate | N/A |
| Other non-current financial assets | | | | | |
| Financial asset measured at FVOCI | ₩ (Asset) 5,214 | 3 | DCF Model | Discount rate | 10.11%~11.35% |
| Financial asset measured at FVPL | (Asset) 51,804 | 3 | DCF Model | Discount rate | 10.85% |
| | | | Net asset value | Stock price, Volatility | N/A |

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6. Reporting on Segment

The Company operates single business segment. Therefore, the Company does not disclose the operating segment information.

7. Transfer of Financial Assets

Under factoring arrangement, the Company sells trade receivables at a discount to the financial institutions for the year ended December 31, 2018. The Company 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, 23 and 39).

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 | ₩ | 701 | ₩ | 231,665 |
| Carrying amount of the associated liabilities | | (701) | | (249,445) |
| 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 | ₩ - | ₩ - | ₩ - | ₩ 11,916 | ₩ 11,916 |
| Trade and other receivables | - | - | - | 42,197 | 42,197 |
| Long-term trade and other receivables | - | - | - | 46,009 | 46,009 |
| Other non-current financial assets | - | 51,804 | 12,639 | 4,041 | 68,484 |
| | ₩ - | ₩ 51,804 | ₩ 12,639 | ₩ 104,163 | ₩ 168,606 |

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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 | ₩ - | ₩ - | ₩ - | 75,379 | 75,379 |
| Borrowings | - | - | - | 837 | 837 |
| Other financial liabilities | 120 | - | - | - | 120 |
| Long-term trade and other payables | - | - | - | 16,314 | 16,314 |
| Long-term borrowings | - | - | - | 1,035 | 1,035 |
| | ₩ 120 | ₩ - | ₩ - | ₩ 93,565 | ₩ 93,685 |

2) FY2017

(In millions of Korean won)

| | 2017 | | | |
|---------------------------------------|----------------------|---------------------------|------------|-------------|
| | Loan and receivables | Available-for-sale assets | Derivative | Total |
| Cash and cash equivalents | ₩ 46,622 | ₩ - | ₩ - | ₩ 46,622 |
| Trade and other receivables | 963,038 | - | - | 963,038 |
| Other financial assets | 209 | - | 18,305 | 18,514 |
| Long-term trade and other receivables | 328,125 | - | - | 328,125 |
| Other non-current financial assets | 3,766 | 233,700 | 4,748 | 242,214 |
| | ₩ 1,341,760 | ₩ 233,700 | ₩ 23,053 | ₩ 1,598,513 |

(In millions of Korean won)

| | 2017 | | | |
|---|--|-----------------------------|------------|-------------|
| | Financial liabilities measured at amortized cost | Other financial liabilities | Derivative | Total |
| Trade and other payables | ₩ 1,410,844 | ₩ 7,304 | ₩ - | ₩ 1,418,148 |
| Borrowings | 1,069,016 | 249,445 | - | 1,318,461 |
| Other financial liabilities | - | - | 3,198 | 3,198 |
| Long-term trade and other payables | 204,618 | - | - | 204,618 |
| Long-term borrowings | 811,362 | - | - | 811,362 |
| Other non-current financial liabilities | - | - | 584 | 584 |
| | ₩ 3,495,840 | ₩ 256,749 | ₩ 3,782 | ₩ 3,756,371 |

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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 comprehensiv e income | Reclassification | Interest income (expense) | Total |
| Financial assets | | | | | |
| Financial assets measured at amortized cost | ₩ (6,680) | ₩ - | ₩ - | ₩ 3,362 | ₩ (3,324) |
| Financial asset measured at FVPL | (806) | - | - | - | (806) |
| Financial asset measured at FVOCI | 322 | (123,182) | - | 29 | (122,831) |
| Financial liabilities | | | | | |
| Financial liabilities measured at amortized cost | (9,723) | - | - | (36,904) | (46,627) |
| Derivative financial assets and liabilities | 2,076 | - | - | - | 2,076 |

(In millions of Korean won)

| | 2017 | | | | |
|--|-------------|-----------------------------------|------------------|---------------------------------|-------------|
| | Gain(Loss) | Other comprehensiv e income | Reclassification | Interest income (expense) | Total |
| Financial assets | | | | | |
| Loans and receivables | ₩ (133,490) | ₩ - | ₩ - | ₩ 3,835 | ₩ (129,655) |
| Available-for-sale assets | (16,398) | (31,286) | (223) | 95 | (47,812) |
| Financial liabilities | | | | | |
| Financial liabilities measured at amortized cost | 64,623 | - | - | (73,235) | (8,612) |
| Other financial liabilities(*1) | 3,639 | - | - | (3,571) | 68 |
| Derivative financial assets and liabilities | 53,921 | - | - | - | 53,921 |

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

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)

| | 2018 | | 2017 | |
|---------------|------|--------|------|--------|
| | ₩ | | ₩ | |
| Cash on hand | ₩ | 30 | ₩ | 470 |
| Bank deposits | | 11,886 | | 46,152 |
| | ₩ | 11,916 | ₩ | 46,622 |

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10. Restricted Financial Instruments

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

| | (In millions of Korean won) | | | |
|------------------------------------|-----------------------------|-------|---------|--|
| | 2018 | 2017 | Details | |
| Cash and cash equivalents | ₩ | - | ₩ 410 | Escrow account related to disposal of Other non-current financial assets |
| Other non-current financial assets | 1,896 | 1,437 | | Restricted for lease deposits received |

11. Trade and Other Receivables

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

| | (In millions of Korean Won) | | |
|-----------------------------|-----------------------------|--------------------------|-----------------|
| | 2018 | | |
| | Receivable amount | Provision for impairment | Carrying amount |
| Trade receivables | ₩ 27,775 | ₩ (3) | ₩ 27,772 |
| Other receivables | 16,027 | (1,602) | 14,425 |
| Long-term trade receivables | - | - | - |
| Long-term other receivables | 46,009 | - | 46,009 |
| | ₩ 89,811 | ₩ (1,605) | ₩ 88,206 |

| | (In millions of Korean Won) | | |
|-----------------------------|-----------------------------|--------------------------|-----------------|
| | 2017 | | |
| | Receivable amount | Provision for impairment | Carrying amount |
| Trade receivables | ₩ 886,157 | ₩ (21,986) | ₩ 864,171 |
| Other receivables | 101,868 | (3,002) | 98,866 |
| Long-term trade receivables | 25,480 | (10,723) | 14,758 |
| Long-term other receivables | 439,151 | (125,784) | 313,367 |
| | ₩ 1,452,657 | ₩ (161,494) | ₩ 1,291,163 |

The Company 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 701 million (2017: KRW 249,445 million). The Company 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, 23 and 39).

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

| | (In millions of Korean Won) | | | |
|------------------------------|-----------------------------|--------|------|---------|
| | 2018 | | 2017 | |
| | ₩ | | ₩ | |
| Other receivables: | | | | |
| Non-trade receivable | | 3,916 | | 77,972 |
| Short-term loans | | 9,397 | | 12,694 |
| Accrued income | | 1,112 | | 8,201 |
| Sub-total | ₩ | 14,425 | ₩ | 98,867 |
| Long-term other receivables: | | | | |
| Long-term loans | | 25,311 | | 138,857 |
| Deposits provided | | 12,390 | | 174,511 |
| Long-term accrued income | | 8,308 | | - |
| Sub-total | ₩ | 46,009 | ₩ | 313,368 |
| Total | ₩ | 60,434 | ₩ | 412,235 |

(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% ~ 5.00% |

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

| | (In millions of Korean Won) | | | | |
|---------------------------|-----------------------------|----------------------|-----------------------------------|-----------------------------------|----------|
| | 2018 | | | | |
| | Trade receivables | Other receivables | Long-term trade receivables | Long-term other receivables | Total |
| Past due but not impaired | ₩ 16,241 | ₩ 14,303 | ₩ - | ₩ 46,723 | ₩ 77,267 |
| Receivables not past due | | | | | |
| Up to 3 months | 11,417 | - | - | - | 11,417 |
| 4 to 6 months | 117 | - | - | - | 117 |
| 7 to 12 months | - | - | - | - | - |
| Over 12 months | - | - | - | - | - |
| | 27,775 | 14,303 | - | 46,723 | 88,801 |
| Impaired receivable | - | 1,724 | - | - | 1,724 |
| | ₩ 27,775 | ₩ 16,027 | ₩ - | ₩ 46,723 | ₩ 90,525 |

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(In millions of Korean Won)

| | 2017 | | | | |
|---------------------------|-------------------|-------------------|-----------------------------|-----------------------------|-------------|
| | Trade receivables | Other receivables | Long-term trade receivables | Long-term other receivables | Total |
| Past due but not impaired | ₩ 628,060 | ₩ 98,674 | ₩ 4,035 | ₩ 234,845 | ₩ 965,614 |
| Receivables not past due | | | | | |
| Up to 3 months | 119,426 | - | - | - | 119,426 |
| 4 to 6 months | 37,115 | - | - | - | 37,115 |
| 7 to 12 months | 35,439 | - | - | - | 35,439 |
| Over 12 months | 40,933 | - | - | - | 40,933 |
| | 860,973 | 98,674 | 4,035 | 234,845 | 1,198,527 |
| Impaired receivable | 25,184 | 3,194 | 21,446 | 204,306 | 254,130 |
| | ₩ 886,157 | ₩ 101,868 | ₩ 25,481 | ₩ 439,151 | ₩ 1,452,657 |

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 Company expects that a portion of their receivables will be recovered. If the Company determines that no objective evidence of impairment exists for an individually assessed receivables, those will be collectively assessed for impairment.
- (6) The Company measured the credit quality of trade receivables and long-term trade receivables that are not impaired by using the external credit ratings or historical information about counterparty default rates.

(In millions of Korean Won)

| 2018 | |
|---|-----------------|
| Trade receivables and long-term trade receivables | Carrying amount |
| Counterparties with external credit rating | ₩ |
| A | 9,364 |
| BB | 361 |
| BBB | 14,845 |
| Sub-total | 24,570 |
| Counterparties without external credit rating | |
| Group 1(*1) | 496 |
| Group 2(*2) | 2,709 |
| Group 3(*3) | - |
| Sub-total | 3,205 |
| Total of unimpaired trade receivables | ₩ 27,775 |

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| 2017 | |
|---|-----------------|
| Trade receivables and long-term trade receivables | Carrying amount |
| Counterparties with external credit rating | ₩ |
| A | 275,827 |
| BB | 389,898 |
| BBB | 45,285 |
| Sub-total | 711,010 |
| Counterparties without external credit rating | |
| Group 1(*1) | 152,897 |
| Group 2(*2) | 138,562 |
| Group 3(*3) | 149 |
| Sub-total | 153,998 |
| Total of unimpaired trade receivables | ₩ 865,008 |

(*1): Group 1: New customers/related parties (less than 6 months)

(*2): Group 2: Existing customers/related parties (more than 6 months) with no defaults in the past

(*3): Group 3: Existing customers/related parties (more than 6 months) with some defaults in the past. All defaults were fully recovered.

(7) 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 | | | | | |
|--|---|---|---|---|-----------|
| | Trade receivables and long-term trade receivables | | Other receivables and long-term other receivables | | Total |
| Beginning balance | ₩ 32,709 | ₩ | 128,785 | ₩ | 161,494 |
| Provisions for impaired receivables | 1,084 | | (1,081) | | 3 |
| Receivables written off as uncollectible | (127) | | (8,562) | | (8,689) |
| Others | 9,825 | | 44,646 | | 54,471 |
| Movements resulting from spin-off | (43,488) | | (162,186) | | (205,674) |
| Ending balance | ₩ 3 | ₩ | 1,602 | ₩ | 1,605 |

(In millions of Korean Won)

| 2017 | | | | | |
|--|---|---|---|---|----------|
| | Trade receivables and long-term trade receivables | | Other receivables and long-term other receivables | | Total |
| Beginning balance | ₩ 34,618 | ₩ | 75,063 | ₩ | 109,681 |
| Provisions for impaired receivables | 10,843 | | 80,847 | | 91,690 |
| Receivables written off as uncollectible | (12,752) | | (27,125) | | (39,877) |
| Ending balance | ₩ 32,709 | ₩ | 128,785 | ₩ | 161,494 |

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- (8) Provision provided and reversed for impaired trade receivables have been included in selling and administrative expenses (Note 33) and the provision provided and reversed for the other receivables have been included in other income and other expense (Note 34). The Company writes off the provision that is not expected to recover an additional cash.

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) | |
|-------------------------------------|-----------------------------|----------------|
| | 2018 | 2017 |
| Other financial assets | | |
| Loans and receivables | ₩ - | ₩ 3,974 |
| Financial assets measured at AC | 4,041 | - |
| Available-for-sale financial assets | - | 233,700 |
| Financial assets measured at FVOCI | 12,639 | - |
| Financial assets measured at FVPL | 51,804 | - |
| Derivative financial assets | - | 23,053 |
| | <u>68,484</u> | <u>260,727</u> |
| Less: current portion | - | (18,513) |
| | <u>68,484</u> | <u>242,214</u> |
| Other financial liabilities | | |
| Derivative financial liabilities | 120 | 3,782 |
| Less: current portion | (120) | (3,198) |
| | <u>₩ -</u> | <u>₩ 584</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) | |
|----------------------------------|-----------------------------|----------------|
| | 2018 | 2017 |
| Short-term financial instruments | ₩ - | ₩ 209 |
| Long-term financial instruments | 4,041 | 3,765 |
| | <u>₩ 4,041</u> | <u>₩ 3,974</u> |

- (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:

- 1) Financial assets measured at fair value through profit or loss

| | (In millions of Korean Won) | |
|-----------------------|-----------------------------|---------------|
| | 2018 | |
| Non-listed | ₩ | 27,987 |
| Invested capital fund | | 23,817 |
| | <u>₩</u> | <u>51,804</u> |

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

(In millions of Korean Won)

| | <u>2017</u> | |
|-----------------------|-------------|---------------|
| Listed | ₩ | 7,425 |
| Non-listed | | 4,055 |
| Invested capital fund | | 1 |
| Government bonds | | 1,158 |
| | ₩ | <u>12,639</u> |

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

(In millions of Korean Won)

| | <u>2017</u> | |
|-----------------------|-------------|----------------|
| Listed | ₩ | 174,131 |
| Non-listed | | 31,181 |
| Invested capital fund | | 27,278 |
| Government bonds | | 1,110 |
| | ₩ | <u>233,700</u> |

(5) Equity investments in which the Company has more than 20% of voting rights but are accounted for financial assets measured at fair value through other comprehensive income as at December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

| | Company | % of ownership | 2018 | | 2017 | |
|-----------------------|---------------------------------------|----------------|------------------|-----------------|-----------------|-----------------|
| | | | Acquisition cost | Carrying amount | Carrying amount | Carrying amount |
| Listed stock | Chin Hung International Inc. (*1) | - | ₩ - | ₩ - | ₩ - | 135,141 |
| Invested capital fund | Oksan Ochang Highway Corporation (*2) | 30.00 | 14,970 | 12,422 | | 14,970 |
| | Total | | <u>₩ 14,970</u> | <u>₩ 12,422</u> | <u>₩</u> | <u>150,111</u> |

(*1): The Company 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 Company does not hold any shares of Chin Hung International Inc. as at December 31, 2018 as a result of the spin-off.

(*2): The Company holds 30% of Oksan Ochang Highway Corporation. However, the Company 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.

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- (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 | ₩ | 233,700 | ₩ | 244,521 |
| Change in accounting policy | | 3,576 | | - |
| Acquisitions(*1) | | 267,751 | | 71,873 |
| Disposals | | (156) | | (504) |
| Impairment loss on available-for-sale financial assets | | - | | (17,052) |
| Valuation | | | | |
| Financial assets measured at FVOCI | | (123,182) | | (31,286) |
| Financial assets measured at FVPL | | (960) | | - |
| Net gains (losses) reclassified from equity | | - | | (224) |
| Increase due to merger | | - | | 1,341 |
| Decrease due to merger | | - | | (34,969) |
| Movements resulting from spin-off | | (201,149) | | - |
| Transfer(*2) | | (115,137) | | - |
| Ending balance | ₩ | <u>64,443</u> | ₩ | <u>233,700</u> |

(*1): The Company acquired a total KRW 71,873 million of available-for-sales financial assets including KRW 28,400 million of Chin Hung International Inc. stock and KRW 34,969 million of Hyosung Engineering convertible bond for the year ended December 31, 2017. The acquisition cost includes the equity conversion.

(*2): During the period, equity instruments of Hyosung TNC Corporation, Hyosung Heavy Industries, Hyosung Advanced Materials and Hyosung Chemical Corporation were reclassified to investments in associates from financial instrument measured at other comprehensive income.

- (7) The Company entered into currency forward exchange contracts to hedge the foreign exchange risks arising from trade receivable denominated in foreign currency. The related gain (loss) on valuation of derivatives is recognized as profit or loss in the profit or loss of the period.

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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 |
| Current | | | |
| Currency forward exchange contracts | | ₩ - | ₩ 120 |
| Instruments forward contracts | | - | - |
| Currency swap | | - | - |
| Total return swap | | - | - |
| | Sub-total | - | 120 |
| Non-current | | | |
| Currency forward exchange contracts | | - | - |
| Currency swap | | - | - |
| Redeemable convertible preference shares | | - | - |
| | Sub-total | - | - |
| | Total | ₩ - | ₩ 120 |

| | | (In millions of Korean Won) | |
|--|-----------|-----------------------------|-------------------------------|
| | | 2017 | |
| | | Derivative assets | Derivative liabilities |
| Current | | | |
| Currency forward exchange contracts | | ₩ 18,246 | ₩ 3,198 |
| Instruments forward contracts | | - | - |
| Currency swap | | 59 | - |
| Total return swap | | - | - |
| | Sub-total | 18,305 | 3,198 |
| Non-current | | | |
| Currency forward exchange contracts | | 1,272 | - |
| Currency swap | | - | 584 |
| Redeemable convertible preference shares | | 3,476 | - |
| | Sub-total | 4,748 | 584 |
| | Total | ₩ 23,053 | ₩ 3,782 |

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13. Other Assets

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

(In millions of Korean Won)

| | 2018 | |
|----------------------------|---------|-------------|
| | Current | Non-current |
| Advance payments | ₩ 5,245 | ₩ - |
| Allowance for bad debts | - | - |
| Prepaid expenses | 1,685 | - |
| Other investments | - | 23,980 |
| Long-term prepaid expenses | - | 701 |
| Total | ₩ 6,930 | ₩ 24,681 |

(In millions of Korean Won)

| | 2017 | |
|----------------------------|-----------|-------------|
| | Current | Non-current |
| Advance payments | ₩ 102,745 | ₩ - |
| Allowance for bad debts | (290) | - |
| Prepaid expenses | 20,006 | - |
| Other investments | - | 23,922 |
| Long-term prepaid expenses | - | 4,308 |
| Total | ₩ 122,461 | ₩ 28,230 |

14. Inventory

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

(In millions of Korean Won)

| | 2018 | | |
|--|-------------|-----------|----------|
| | Acquisition | Provision | Carrying |
| Merchandise | ₩ 9,442 | ₩ - | ₩ 9,442 |
| Finished goods | 3,202 | (76) | 3,126 |
| Semi-finished goods | 3,633 | (149) | 3,484 |
| Work in process | - | - | - |
| Raw materials | 570 | - | 570 |
| Sub-materials | 802 | (20) | 782 |
| Supplies | 2 | - | 2 |
| Packing | 76 | (3) | 73 |
| Goods in transit | 89 | - | 89 |
| Cost accrued on construction contracts | - | - | - |
| Temporary installations | - | - | - |
| Land | - | - | - |
| | ₩ 17,816 | ₩ (248) | ₩ 17,568 |

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(In millions of Korean Won)

| | 2017 | | |
|--|--------------------|-------------------|------------------|
| | Acquisition | Provision | Carrying |
| Merchandise | ₩ 42,362 | ₩ (212) | ₩ 42,150 |
| Finished goods | 307,886 | (26,763) | 281,123 |
| Semi-finished goods | 98,786 | (5,971) | 92,815 |
| Work in process | 44,134 | (601) | 43,533 |
| Raw materials | 124,731 | (4,262) | 120,469 |
| Sub-materials | 18,992 | (1,761) | 17,231 |
| Supplies | 4,134 | (237) | 3,897 |
| Packing | 2,036 | (102) | 1,934 |
| Goods in transit | 30,677 | - | 30,677 |
| Cost accrued on construction contracts | 6,030 | - | 6,030 |
| Temporary installations | 65 | - | 65 |
| Land | 4,920 | (2,101) | 2,819 |
| | <u>₩ 684,753</u> | <u>₩ (42,010)</u> | <u>₩ 642,743</u> |

Inventories recognized as cost of sales for the year ended December 31, 2018 amounted to KRW 195,396 million (2017: KRW 136,936 million). In the meanwhile, the Company recognized the reversal of inventory allowance amounting to KRW 46 million as cost of sales for the year ended December 31, 2018 (2017: KRW 294 million as inventory allowance loss).

15. Property, Plants and Equipment

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

(In millions of Korean Won)

| | 2018 | | |
|--------------------------|-------------------------|--------------------------------------|------------------------|
| | Acquisition cost | Accumulated depreciation (*1) | Carrying amount |
| Land | ₩ 444,584 | ₩ - | ₩ 444,584 |
| Building | 62,231 | (26,978) | 35,253 |
| Structures | 13,809 | (3,492) | 10,317 |
| Machinery | 207,988 | (184,663) | 23,325 |
| Vehicles | 999 | (911) | 88 |
| Tool and equipment | 45,886 | (37,692) | 8,194 |
| Others | - | - | - |
| Construction in progress | 9,486 | - | 9,486 |
| Machinery in transit | 54 | - | 54 |
| | <u>₩ 785,037</u> | <u>₩ (253,736)</u> | <u>₩ 531,301</u> |

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(In millions of Korean Won)

| | 2017 | | |
|--------------------------|---------------------|-------------------------------------|--------------------|
| | Acquisition cost | Accumulated depreciation (*1) | Carrying amount |
| Land | ₩ 1,459,501 | ₩ - | ₩ 1,459,501 |
| Building | 858,701 | (285,300) | 573,401 |
| Structures | 284,430 | (77,216) | 207,214 |
| Machinery | 3,687,864 | (2,777,488) | 910,376 |
| Vehicles | 30,120 | (24,989) | 5,131 |
| Tool and equipment | 300,979 | (245,046) | 55,933 |
| Others | 112,973 | (26,212) | 86,761 |
| Construction in progress | 42,121 | (827) | 41,294 |
| Machinery in transit | 179 | - | 179 |
| | <u>₩ 6,776,868</u> | <u>₩ (3,437,078)</u> | <u>₩ 3,339,790</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 | Effect of merger | Depreciation and others | Impairment loss | Transfer(*1) | Government grants received | Carrying amount |
| Land | ₩ 1,459,501 | ₩ - | ₩ (567) | ₩ (1,013,717) | ₩ - | ₩ - | ₩ 457 | ₩ (1,090) | ₩ 444,584 |
| Building | 573,401 | 319 | (686) | (530,992) | (9,745) | - | 3,382 | (426) | 35,253 |
| Structures | 207,214 | - | (295) | (197,115) | (3,520) | - | 4,088 | (55) | 10,317 |
| Machinery | 910,376 | 3,991 | (753) | (854,275) | (91,131) | - | 57,181 | (2,064) | 23,325 |
| Vehicles | 5,131 | 128 | (1) | (4,497) | (901) | - | 233 | (5) | 88 |
| Tool and equipment | 55,933 | 1,934 | (103) | (44,742) | (11,493) | - | 6,785 | (120) | 8,194 |
| Others | 86,761 | 879 | (488) | (87,152) | - | - | - | - | - |
| Construction in progress | 41,294 | 93,450 | (6) | (60,919) | - | - | (64,332) | - | 9,487 |
| Machinery in transit | 179 | 7,950 | - | (34) | - | - | (8,041) | - | 54 |
| | <u>₩ 3,339,790</u> | <u>₩ 108,652</u> | <u>₩ (2,901)</u> | <u>₩ (2,793,443)</u> | <u>₩ (116,791)</u> | <u>₩ -</u> | <u>₩ (246)</u> | <u>₩ (3,760)</u> | <u>₩ 531,301</u> |

| | 2017 | | | | | | | | |
|--------------------------|--------------------|------------------|------------------|--------------------------|----------------------------|--------------------|-------------------|----------------------------------|--------------------|
| | Beginning | Acquisition | Disposal | Effect of acquisition | Depreciation and others | Impairment loss | Transfer(*1) | Government grants received | Carrying amount |
| Land | ₩ 1,414,821 | ₩ 932 | ₩ (1,211) | ₩ 67,760 | ₩ - | ₩ - | ₩ (22,801) | ₩ - | ₩ 1,459,501 |
| Building | 509,173 | 4,559 | (407) | 51,310 | (20,652) | - | 29,418 | - | 573,401 |
| Structures | 172,112 | 302 | (389) | 27,835 | (7,538) | (122) | 15,014 | - | 207,214 |
| Machinery | 987,427 | 13,939 | (167) | 477 | (222,070) | (80,415) | 211,415 | (230) | 910,376 |
| Vehicles | 4,093 | 934 | (33) | 1,008 | (2,179) | - | 1,308 | - | 5,131 |
| Tool and equipment | 57,063 | 3,041 | (187) | 2,501 | (23,138) | (1,824) | 18,590 | (113) | 55,933 |
| Others | 10,395 | 1,024 | (1,397) | 101,820 | (1,743) | (23,338) | - | - | 86,761 |
| Construction in progress | 174,196 | 87,862 | - | 3,023 | - | (827) | (222,960) | - | 41,294 |
| Machinery in transit | 768 | 72,575 | - | - | - | - | (73,164) | - | 179 |
| | <u>₩ 3,330,048</u> | <u>₩ 185,168</u> | <u>₩ (3,791)</u> | <u>₩ 255,734</u> | <u>₩ (277,320)</u> | <u>₩ (106,526)</u> | <u>₩ (43,180)</u> | <u>₩ (343)</u> | <u>₩ 3,339,790</u> |

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

(*2): The Company reviewed separate cash-generating units (hereafter 'CGU') to determine whether the property, plant and equipment were impaired since the Company 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 Company 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

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Division for ₩ 23,338 million and Tire Reinforcements Eonyang Plant for ₩ 10,847 million. Impairment losses recognized by the Company 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 Company 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 Company 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) Depreciation expenses are allocated to manufacturing cost (2018: KRW 105,504 million, 2017: KRW 256,211 million), selling and administrative expenses (2018: KRW 4,288 million, 2017: KRW 8,316 million) and research and development expenses (2018: KRW 6,975 million, 2017: 11,084 million), respectively.
- (4) Land, building and machineries are provided to the financial institutions as collaterals for borrowings (Note 39).

16. 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 | ₩ 5,488 | ₩ - | ₩ 5,488 |
| Building | 1,047 | (359) | 688 |
| | <u>₩ 6,535</u> | <u>₩ (359)</u> | <u>₩ 6,176</u> |

(In millions of Korean Won)

| | 2017 | | |
|----------|---------------------|---------------------------------|--------------------|
| | Acquisition cost | Accumulated depreciation(*1) | Carrying amount |
| Land | ₩ 331,506 | ₩ (3,484) | ₩ 328,022 |
| Building | 140,885 | (41,870) | 99,015 |
| | <u>₩ 472,391</u> | <u>₩ (45,354)</u> | <u>₩ 427,037</u> |

(*1): Accumulated impairment losses are included.

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

| | 2018 | | | 2017 | | |
|-------------------|-----------|----------|-----------|-----------|-----------|-----------|
| | Land | Building | Total | Land | Building | Total |
| Beginning balance | ₩ 328,022 | ₩ 99,015 | ₩ 427,037 | ₩ 334,984 | ₩ 133,788 | ₩ 468,772 |
| Acquisition | - | - | - | - | 780 | 780 |
| Disposals | - | (1) | (1) | (33,384) | (31,864) | (65,248) |
| Depreciation | - | (1,484) | (1,484) | - | (3,715) | (3,715) |
| Transfers, etc. | - | 138 | 138 | 26,422 | 26 | 26,448 |
| Spin-off effect | (322,534) | (96,980) | (419,514) | - | - | - |
| Ending balance | ₩ 5,488 | ₩ 688 | ₩ 6,176 | ₩ 328,022 | ₩ 99,015 | ₩ 427,037 |

(3) During the year of 2018, rental income from investment property is KRW 26,028 million (2017: KRW 40,686 million) and rental expense including depreciation expense is KRW 18,455 million (2017: KRW 27,643 million).

(4) Fair value of investment properties as at December 31, 2018 is KRW 8,800 million (2017: KRW 572,090 million). The fair value was estimated based on the Land Value by Public Announcement.

17. 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 | | | |
| | Industrial property | Others (*1) | Membership right | Total |
| Beginning balance | ₩ 7,103 | ₩ 11,928 | ₩ 5,398 | ₩ 24,429 |
| Acquisition | 396 | 6,909 | - | 7,625 |
| Disposals | - | - | (328) | (328) |
| Effect of merger | (6,701) | (2,847) | 19,429 | 9,881 |
| Amortization | (638) | (4,028) | - | (4,666) |
| Transfers(*2) | - | (2,803) | - | 204 |
| Ending balance | ₩ 160 | ₩ 9,159 | ₩ 27,826 | ₩ 37,145 |

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(In millions of Korean Won)

| | 2017 | | | |
|-----------------------|---------------------|-------------|------------------|----------|
| | Industrial property | Others (*1) | Membership right | Total |
| Beginning balance | ₩ 6,024 | ₩ 18,544 | ₩ 59,523 | ₩ 84,091 |
| Acquisition | 934 | 3,611 | - | 4,545 |
| Disposals | - | - | (1,248) | (1,248) |
| Effect of acquisition | 36 | - | (52,735) | (52,699) |
| Amortization | (1,424) | (7,539) | - | (8,963) |
| Impairment loss | (72) | - | (141) | (213) |
| Transfers(*2) | 1,605 | (2,688) | - | (1,083) |
| Ending balance | ₩ 7,103 | ₩ 11,928 | ₩ 5,399 | ₩ 24,430 |

(*1): Right to use of facilities and natural resource development cost are included.

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

- (2) Amortization expenses are allocated to manufacturing cost (2018: KRW 108 million, 2017: KRW 251 million), selling and administrative expenses (2018: KRW 300 million, 2017: KRW 400 million) and research and development expenses (2018: KRW 4,258 million, 2017: KRW 8,312 million), respectively.

18. Insured Assets

As at December 31, 2018 and 2017, details of insured assets are as follows:

(In millions of Korean Won)

| Insurance type | Insured assets | 2018 | | Insurance company |
|----------------------------|-------------------------------|-----------------|----------------|------------------------------------|
| | | Carrying amount | Insured amount | |
| General property insurance | Property, plant and equipment | ₩ 94,745 | ₩ 704,884 | Samsung Fire and Package insurance |

19. Government Grants

- (1) The Company entered into development agreements with Korea Evaluation Institute of industrial technology and others for various national research projects, including development of materials related to Polyketone.
- (2) As at December 31, 2018, the balance of government grants related to asset acquisition is KRW 2,332 million (2017: KRW 12,776 million), and the balance of government grants related to liabilities to be repaid is KRW 16,123 million (2017: KRW 18,387 million).

20. Investment in Associates and Subsidiaries

- (1) Changes in investment in subsidiaries for the years ended December 31, 2018 and 2017 are as follows:

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| | (In millions of Korean Won) | | | |
|----------------------------|-----------------------------|-----------|------|-----------|
| | 2018 | | 2017 | |
| Beginning balance | ₩ | 1,521,103 | ₩ | 1,584,669 |
| Acquisition | | 552,859 | | 883 |
| Impairment loss | | (500) | | (64,449) |
| Movements from spin-off | | (745,047) | | - |
| Ending balance | ₩ | 1,328,415 | ₩ | 1,521,103 |
| Investment in subsidiaries | ₩ | 714,627 | ₩ | 1,448,266 |
| Investment in associates | | 613,788 | | 72,837 |

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

| | (In millions of Korean Won) | | | |
|---|-----------------------------|---------------|-----------------|-----------------|
| | 2018 | | 2017 | |
| | Location | Ownership (%) | Carrying amount | Carrying amount |
| Gongdeok Gyeongwoo Development Corporation (*1) | Korea | 73.33 | ₩ 974 | ₩ 974 |
| Hyosung TNS | Korea | 54.02 | 75,178 | 75,178 |
| Taeam Solar Farm | Korea | 100.00 | 1,880 | 1,880 |
| Hana Land Chip Private Real Estate Investment Trust No.39 | Korea | 50.00 | 16,000 | 16,000 |
| Hyosung Good Springs | Korea | 100.00 | 74,361 | 74,361 |
| Hyosung Capital | Korea | 97.49 | 362,846 | 361,762 |
| Hyosung Investment & Development | Korea | 58.75 | 34,798 | 34,798 |
| Hyosung Transworld | Korea | 100.00 | 4,698 | 4,698 |
| GST Global GmbH | Germany | - | - | 160,226 |
| Hyosung (H.K) LIMITED | China | 100.00 | 557 | 557 |
| Hyosung (Taiwan) Corporation | Taiwan | - | - | 226 |
| Hyosung Brasil Industria E Comercio De Fibras Ltda. | Brazil | - | - | 33,322 |
| Hyosung Brasil industrial & commercial LTDA | Brazil | 100.00 | 5,451 | 5,451 |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd. | China | - | - | 156,059 |
| Hyosung Chemicals (Jiaxing) Co., Ltd. | China | - | - | 4,848 |
| Hyosung Corporation India Private Limited | India | - | - | 461 |
| Hyosung Europe SRL | Italy | - | - | 3,704 |
| Hyosung Holdings USA | USA | 100.00 | 89,589 | 89,589 |
| Hyosung International Trade (Jiaxing) Co., Ltd. | China | - | - | 1,295 |
| Hyosung Istanbul TEKSTIL LTD.STI | Turkey | - | - | 12,621 |
| Hyosung Japan Co., Ltd. | Japan | - | - | 6,899 |
| Hyosung Luxembourg S.A | Luxemburg | - | - | 19,976 |
| Hyosung Resource (Australia) PTY Ltd. | Australia | 100.00 | 14,561 | 14,475 |
| Hyosung RUS. | Russia | 100.00 | 1,692 | 1,692 |
| Hyosung Singapore PTE Ltd. | Singapore | - | - | 17 |

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| | | | | |
|--|--------------|--------|----------|------------------|
| Hyosung Spandex (GuangDong) Co., Ltd. | China | - | - | 102,594 |
| Hyosung Spandex (Jiaxing) Co., Ltd. | China | - | - | 117,289 |
| Hyosung Spandex (Zhuhai) Co., Ltd. | China | - | - | 24,644 |
| Hyosung SRL | Romania | 100.00 | 1 | 1 |
| Hyosung Steel Cord (Qingdao) Co., Ltd. | China | - | - | 16,668 |
| Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd. | China | 100.00 | 10,772 | 10,772 |
| Hyosung Vietnam Co., Ltd. | Vietnam | - | - | 49,192 |
| PT.HYOSUNG JAKARTA | Indonesia | 99.90 | 1,268 | 1,268 |
| Zhangjiagang Xiaosha Coil Service Co., Ltd. | China | - | - | 10,404 |
| Nantong Hyosung Transformer Co., Ltd. | China | - | - | 2,179 |
| HYOSUNG SOUTH AFRICA (PTY) LTD | South Africa | - | - | - |
| FMK | Korea | 100.00 | 20,001 | 20,001 |
| Hyosung T&D India Private Ltd. | India | - | - | 11,685 |
| Pohang New & Renewable Energy | Korea | 100.00 | - | 500 |
| | | | <u>₩</u> | <u>714,627</u> |
| | | | <u>₩</u> | <u>1,448,266</u> |

(*1): Equity shares of Gongdeok Gyeongwoo Development Corporation are pledged as security to financial institutions for the borrowings of Gongdeok Gyeongwoo Development Corporation (Notes 21 and 39).

(3) Details of investments in associates as at December 31, 2018 and 2017 are as follows:

| | Location | (In millions of Korean Won) | | | | |
|--|-----------|-----------------------------|-----------------|-----------------|-----------------|---------------|
| | | 2018 | | 2017 | | |
| | | Ownership (%) | Carrying amount | Carrying amount | Carrying amount | |
| Shinwha Intertek Co., Ltd. | Korea | 0 | ₩ - | ₩ | 10,738 | |
| Taebaek Wind Power Co., Ltd. | Korea | 35.00 | 5,334 | | 5,334 | |
| Pyeongchang Wind Power Co., Ltd.(*1) | Korea | 42 | 6,510 | | 6,510 | |
| Hyosung Information System Co., Ltd. | Korea | 50 | 24,860 | | 24,860 | |
| Hyosung Toyota Corp. | Korea | 40 | - | | - | |
| Hyosung ITX Co., Ltd. | Korea | 34.99 | 6,961 | | 6,961 | |
| PT. GELORA MANDIRI Membangun(*2) | Indonesia | 15 | 4,687 | | 4,687 | |
| PT. Papua Agro Lestari(*2) | Indonesia | 15 | 10,458 | | 10,458 | |
| The Kwangjuilbo | Korea | 49 | 3,290 | | 3,290 | |
| Hyosung TNC | Korea | 20.32 | 176,483 | | - | |
| Hyosung Heavy Industries | Korea | 32.47 | 161,041 | | - | |
| Hyosung Advanced Materials Corporation | Korea | 21.2 | 116,476 | | - | |
| Hyosung Chemical Corporation | Korea | 20.17 | 97,688 | | - | |
| | | | <u>₩</u> | <u>613,788</u> | <u>₩</u> | <u>72,837</u> |

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- (4) Details of impairment losses recognized in relation to investments in subsidiaries and associates for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

| | | 2018 | | | |
|-------------------------------|---|--|-----------------------|--------------------|---|
| | | Carrying amount before impairment | Recoverable amount | Impairment loss | Method to calculate recoverable amount |
| Pohang New & Renewable Energy | ₩ | 500 | ₩ - | ₩ 500 | Value-in-use |

(In millions of Korean Won)

| | | 2017 | | | |
|--|---|--|-----------------------|--------------------|---|
| | | Carrying amount before impairment | Recoverable amount | Impairment loss | Method to calculate recoverable amount |
| Shinwha Intertek Co., Ltd. | ₩ | 16,918 | ₩ 10,738 | ₩ 6,180 | Net fair value |
| Nantong Hyosung Transformer Co., Ltd. | | 6,988 | 2,179 | 4,809 | Value in use |
| Hyosung Steel Cord (Qingdao) Co., Ltd. | | 70,647 | 16,668 | 53,979 | Value in use |
| The Kwangjuilbo | | 3,920 | 3,290 | 630 | Value in use |
| | ₩ | <u>98,473</u> | ₩ <u>32,875</u> | ₩ <u>65,598</u> | |

The Company considers net fair value and value-in-use in calculating the recoverable amounts of investments in subsidiaries and associates. The net fair value was estimated based on the best information available to calculate the amount of consideration, which may be received in a sale of assets between independent parties with reasonable judgment and intentions, less costs of disposal. The value-in-use was calculated by discounting estimated future cash flows of subsidiaries and associates with an appropriate discount rate, and a valuation report from an independent external valuation agency was used.

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- (5) Fair value of investments in associates that has a quoted market price as at December 31, 2018 and 2017 are as follows:

| (In millions of Korean Won except market price per share) | 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 TNC Co. | 879,290 | 185,000 | 162,669 | 176,483 |
| Hyosung Heavy Industries | 3,027,801 | 41,350 | 125,200 | 161,041 |
| Hyosung Advanced Materials | 949,839 | 103,000 | 97,833 | 116,476 |
| Hyosung Chemical Corporation | 643,481 | 142,000 | 91,374 | 97,688 |

| (In millions of Korean Won except market price per share) | 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) |
| Hyosung ITX Co., Ltd. | 4,349,000 | ₩ 12,600 | ₩ 54,797 | ₩ 6,961 |
| Shinwha Intertek Co., Ltd. | 4,446,227 | 2,415 | 10,738 | 10,738 |

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21. Related Party Transactions

(1) Details of related parties as at December 31, 2018 are as follows:

1) Subsidiaries

| Region | Related Party |
|---------------|---|
| Domestic | Gongdeok Development Corporation, Hyosung TNS INC., Hana Land Chip Private Real Estate Investment Trust No.39, Taeon Solar Farm Co., Ltd., Hyosung GoodSprings, Inc., Hyosung Capital INC., Hyosung Investment & Development Co., Ltd., Hyosung Trans World Co Ltd, Pohang New & Renewable Energy, Inc. |
| America | HICO America Sales & Tech, Hyosung Holdings USA, Inc., Hyosung USA Inc. and others |
| Asia | PT. HYOSUNG JAKARTA and others |
| Europe | Hyosung RUS. And others |

2) Associates

| Region | Related Party |
|---------------|---|
| Domestic | Hyosung Heavy Industries, Hyosung TNS INC., Hyosung Advanced Materials Corporation, Hyosung Chemical Corporation, Soonchon Eco Green Corporation, The Kwangjuilbo, Taebabaek Wind Power, Pyeongchang Wind Power Co, Ltd, Hyosung Toyota Corp, Hyosung Information System Co., Ltd, Hyosung IIX Co., Ltd., Paithfinder Youth's Investment Foundation Association |
| Asia | Papua Agro Lestari, PT. GELORA MANDIRI MEMBANGUN(GMM), Hyosung Vietnam Co., Ltd. |
| Europe | Hyosung Istanbul TEKSTIL LTD.STI |

3) Other related party

| Region | Related Party |
|---------------|--|
| Domestic | Galaxia Co. Ltd, Galaxia Co., Ltd., Galaxia device Co., Ltd., Galaxia Micropayment Co.,Ltd., Galaxia Electronics Co., Ltd., Gongdeok Development Corporation, The Class Hyosung Corporation, The premium Hyosung Co., Ltd., Dong Ryung Co., Ltd., Shin Dong Jin Co., Ltd., A-SEUNG AUTOMOTIVE GROUP , IIX Marketing Co., Ltd, IIX M&S Co., Ltd., Trinity Asset Management, Haengbokdoodrimi Co., Ltd. , Hyosung Premier Motors, ASC Co. Ltd., and others |
| China | Tianjin Galaxia Device Electronics., Co.Ltd., Huizhou Galaxia Device Electronics., Co. Ltd., Qingdao Galaxia Device Electronics., Co.Ltd., Weihai Galaxia Device Electronics., Co.Ltd, SHINWHA INTERTEK (SUZHOU) CO.,LTD, DNS Technology Co., Ltd., and others |
| Asia | Galaxia Japan, Hyosung Singapore PTE Ltd., and others |
| Europe | Hyosung Europe SRL and others |

4) Others

| Region | Related Party |
|---------------|---|
| Domestic | Galaxia SM, Galaxia Communications Ltd., Shinseong Motor Co., Ltd., Jinheung Enterprise Co., Ltd., Taeuk Construction Co., Ltd., and others |
| China | IB China, Ltd. And others |
| America | IB America, Ltd., and others |

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(*1): 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 Company included those entities in the scope of the related parties.

(2) Significant transactions with related parties

1) Significant transactions 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 and Others | Purchase and Others (*1) | Acquisition of Fixed Assets |
| Subsidiaries | | | | |
| Hyosung Holdings USA | ₩ 20,862 | ₩ - | ₩ 265 | ₩ - |
| Hyosung USA Inc. | 62,103 | - | 634 | 11 |
| HICO America Sales & Tech. | 65,033 | - | 107 | - |
| Hyosung Investment Development Co., Ltd | - | 25,380 | - | - |
| Hyosung Trans World Co. | 145 | 3,500 | 68,506 | 140 |
| Others | 16,090 | 1,383 | 18,074 | 3,093 |
| | <u>164,233</u> | <u>30,263</u> | <u>87,586</u> | <u>3,244</u> |
| Associates | | | | |
| Hyosung Vietnam Co., Ltd. | 81,242 | 96,490 | 33,642 | - |
| Hyosung Heavy Industries | 32,729 | - | - | - |
| Hyosung Advanced Materials | 15,185 | - | 5,235 | 1 |
| Hyosung Chemical | 17,934 | - | 6 | - |
| Hyosung TNC | 15,735 | - | 12,581 | - |
| Others | 8,235 | 16,045 | 6,034 | 752 |
| | <u>171,060</u> | <u>112,535</u> | <u>57,498</u> | <u>753</u> |
| Other related parties | | | | |
| Hyosung Japan Co., Ltd. | 106,247 | - | 20,429 | - |
| Hyosung Singapore PTE Ltd. | 88,691 | - | 256 | - |
| Hyosung DongNai Co, LTD | 22,540 | - | 57,073 | - |
| Hyosung Luxembourg S.A | 22,740 | 9,205 | - | - |
| HYOSUNG T&D INDIA Pvt Ltd | 37,315 | - | 11,766 | - |
| Others | 100,170 | 24,933 | 73,574 | 195 |
| | <u>377,703</u> | <u>34,138</u> | <u>163,098</u> | <u>195</u> |
| Others | | | | |
| Shinwha intertek Co., Ltd. | 2,885 | - | 3 | - |
| Galaxia Communications | 1,064 | - | 1 | - |
| Galaxia SM | - | - | 5,716 | - |
| Others | 1,047 | - | - | - |
| | <u>4,996</u> | <u>-</u> | <u>5,720</u> | <u>-</u> |
| Total | <u>₩ 717,992</u> | <u>₩ 176,936</u> | <u>₩ 313,902</u> | <u>₩ 4,192</u> |

(*1): Sales, other income and interest income are included in sales and others. Purchase of raw materials, upfront fees, other expenses are included in purchase and others.

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(In millions of Korean won)

| | 2017 | | | |
|-------------------------------------|--------------------------|----------------------------------|-----------------------------|--------------------------------|
| | Sales and Others (*1) | Dividend income and Others | Purchase and Others (*1) | Acquisition of Fixed Assets |
| Subsidiaries | | | | |
| HICO America Sales & Tech. | ₩ 195,258 | ₩ - | ₩ 286 | ₩ - |
| Hyosung DongNai Co., Ltd. | 38,689 | - | 71,349 | - |
| Hyosung Japan Co., Ltd. | 228,436 | - | 29,782 | - |
| Hyosung Singapore PTE Ltd. | 201,735 | - | 261 | - |
| Hyosung Spandex (Jiaxing) Co., Ltd. | 10,918 | 23,816 | 161 | - |
| Hyosung Vietnam Co., Ltd. | 154,630 | 97,844 | 121,375 | - |
| Others | 479,935 | 66,365 | 329,932 | 2,871 |
| | <u>1,309,601</u> | <u>188,025</u> | <u>553,146</u> | <u>2,871</u> |
| Associates | | | | |
| Shinwha intertek Co., Ltd. | 11,415 | 222 | 27 | - |
| Hyosung IIX Co., Ltd. | 1 | 874 | 3,602 | 143 |
| Hyosung Information Systems Co. | 82 | 2,595 | 72 | 376 |
| Others | 1,159 | - | 510 | - |
| | <u>12,657</u> | <u>3,691</u> | <u>4,211</u> | <u>519</u> |
| Other related parties | | | | |
| Galaxia Electronics Co. | 210 | - | 14,269 | 1,159 |
| Gong dok Development Co. | 19 | - | 8,479 | - |
| The Class Hyosung Co. | 3,402 | - | 13 | - |
| Shin Dong Jin Co. | - | - | 6,336 | - |
| Others | 4 | - | 397 | - |
| | <u>3,635</u> | <u>-</u> | <u>29,494</u> | <u>1,159</u> |
| Others | | | | |
| Jin Hung International Co. | 407 | - | - | - |
| Others | 1,039 | - | 5,286 | - |
| | <u>1,446</u> | <u>-</u> | <u>5,286</u> | <u>-</u> |
| Total | <u>₩ 1,327,339</u> | <u>₩ 191,716</u> | <u>₩ 592,137</u> | <u>₩ 4,549</u> |

(*1): Sales, other income and interest income are included in sales and others. Purchase of raw materials, upfront fees, other expenses are included in purchase and others.

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2) Significant outstanding balances to related parties as at December 31, 2018 and 2017 are as follows:

(In millions of Korean won)

| | 2018 | | | |
|--|------------------------------------|------------------------------|-------------------|------------------------|
| | Trade receivables and others | Other receivables (*1) | Trade payables | Other payables (*1) |
| Subsidiaries | | | | |
| Hyosung USA Inc. | ₩ 1,524 | ₩ 25 | ₩ - | ₩ 16 |
| Gongdok Kyeongwoo Development Co. | - | 29,334 | - | 79 |
| Hyosung TNS Co. | 261 | - | - | 4,610 |
| Others | 244 | 9,816 | 362 | 197 |
| | <u>2,029</u> | <u>39,175</u> | <u>362</u> | <u>4,902</u> |
| Associates | | | | |
| Hyosung Heavy Industries Co. | 7,004 | 30 | - | 727 |
| Hyosung TNC Co. | 2,007 | 141 | 1,576 | 438 |
| Hyosung Advanced Materials | 2,842 | 111 | 874 | 395 |
| Hyosung Chemical | 2,922 | 7 | 3 | 33 |
| The Kwangjuilbo | - | 7,980 | - | 55 |
| Others | 264 | 4,983 | - | 388 |
| | <u>15,039</u> | <u>13,252</u> | <u>2,453</u> | <u>2,036</u> |
| Other related parties | | | | |
| Hyosung Chemical Fiber (Jiaxing) Co., Ltd. | - | 19 | 218 | - |
| Hyosung Japan Co., Ltd. | 509 | - | - | 54 |
| Gongdok Development | - | 339 | - | 3 |
| Others | 8 | 238 | 5 | - |
| | <u>517</u> | <u>596</u> | <u>223</u> | <u>57</u> |
| Others | | | | |
| Galaxia Communications Co. | - | - | 1 | 643 |
| Galaxia SM | 20 | - | 112 | - |
| Others | - | - | - | - |
| | <u>20</u> | <u>-</u> | <u>113</u> | <u>643</u> |
| Total | <u>₩ 17,605</u> | <u>₩ 53,023</u> | <u>₩ 3,151</u> | <u>₩ 7,638</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 21,600 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 (*1) |
| Subsidiaries | | | | |
| Gongdok Kyeongwoo Development Co. | ₩ 220 | ₩ 28,617 | ₩ 37 | ₩ - |
| Saebitsum Co. | - | 22,000 | - | 151 |
| Hyosung GoodSprings Co. | 3,739 | 979 | 160 | 19,347 |
| Hyosung Trans World Co. | - | 132 | 4,135 | 24,198 |
| Baoding Hyosung Tianwei Transformer Co., Ltd. | - | 14,828 | 1,401 | - |
| GST Global GmbH | 11,864 | 1,188 | 530 | 760 |
| Hyosung Chemical Fiber(Jiaxing) Co., Ltd. | 4,738 | 1,440 | 8,725 | 154 |
| Hyosung Spandex(Jiaxing) Co., Ltd. | 5,559 | 200 | 154 | 58 |
| Hyosung T&D India Pvt Ltd, | 18,455 | 7,002 | 5,100 | 447 |
| Hyosung Vietnam Co., Ltd. | 8,268 | 1,289 | 13,880 | 327 |
| Nantong Hyosung Transformer Co., Ltd. | 756 | 10,022 | 13,502 | 1,777 |
| Zhangjiagang Xiaosha Coil Service Co., Ltd. | 18,775 | - | 189 | 2 |
| Others | 45,665 | 16,630 | 20,634 | 27,202 |
| | <u>118,039</u> | <u>104,327</u> | <u>68,447</u> | <u>74,423</u> |
| Associates | | | | |
| Shinwha Intertek Co., Ltd. | 2,501 | - | - | 2,499 |
| The Kwangjuilbo | - | 7,727 | - | 55 |
| Hyosung ITX Co., Ltd. | - | - | 981 | 2,598 |
| Hyosung Toyota Co. | 509 | - | - | - |
| PT. GELORA MANDIRI MEMBANGUN | - | 4,738 | - | - |
| Others | - | 962 | - | 4,050 |
| | <u>3,010</u> | <u>13,427</u> | <u>981</u> | <u>9,202</u> |
| Other related parties | | | | |
| Galaxia Electronics Co. | - | - | 444 | 40 |
| Gong dok Development Co. | - | 4,344 | - | 19 |
| The Class Hyosung Co. | - | 4,204 | - | 596 |
| Others | 3 | 600 | - | 5,684 |
| | <u>3</u> | <u>9,148</u> | <u>444</u> | <u>6,339</u> |
| Others | | | | |
| Galaxia Communications Co. | 8 | - | - | 643 |
| Jin Hung International Co. | - | 17,292 | - | 15,933 |
| Others | - | 18 | 1,868 | 1,329 |
| | <u>8</u> | <u>17,310</u> | <u>1,868</u> | <u>17,905</u> |
| Total | <u>₩ 121,060</u> | <u>₩ 144,212</u> | <u>₩ 71,740</u> | <u>₩ 107,869</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.

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

(In millions of Korean won)

| | 2018 | | | | | | |
|--|-----------|--------|-----------|----------|-------------|----------|--------------|
| | Beginning | Loans | Exclusion | Others | Translation | Ending | Contribution |
| Subsidiaries | | | | | | | |
| Gongdeok Kyoung Woo Development Co., Ltd. | ₩ 20,361 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 20,361 | ₩ - |
| Baoding Hyosung Tianwei Transformer Co., Ltd. (*1) | 14,571 | - | - | (14,571) | - | - | - |
| Pohang New & Renewable Energy | 2,200 | 569 | (2,769) | - | - | - | - |
| Associates | | | | | | | |
| Suncheon Eco Green | 924 | 345 | (1,269) | - | - | - | - |
| PT. Gelora Mandiri Membangun | 4,738 | - | - | - | 207 | 4,945 | - |
| Gwangju Ilbo Corporation | 7,149 | - | - | - | - | 7,149 | - |
| Other related parties | | | | | | | |
| HYOSUNG INDIA PVT.LTD (*2) | - | - | - | - | - | - | - |
| HYOSUNG VINA CHEMICALS CO., LTD (*2) | - | - | - | - | - | - | - |
| Green Power 5th LLC(Italian Solar Power) | - | 11,483 | (11,483) | - | - | - | - |
| Best Red LLC(Romanian Photovoltaic) | - | 52,391 | (52,391) | - | - | - | - |
| Best Blue LLC(Romanian Photovoltaic) | - | 41,830 | (41,830) | - | - | - | - |
| Best Purple LLC(Romanian Photovoltaic) | - | 52,460 | (52,460) | - | - | - | - |
| Grand 5th LLC(Romania Photovoltaic) | - | 30,532 | (30,532) | - | - | - | - |
| Grand 6th LLC(Romania Photovoltaic) | - | 20,874 | (20,874) | - | - | - | - |
| Green Power 8th LLC(Romania Photovoltaic) | - | 34,144 | (34,144) | - | - | - | - |
| Grand Seventh LLC(Romania Solar) | 79,753 | - | - | - | - | - | - |
| ProVest Kingdom First (British biomass) | 46,100 | - | (46,100) | - | - | - | - |

(*1): Baoding Hyosung Tianwei Transformer Co., Ltd. was excluded from the scope of the consolidating group as it was disposed during the current period.

(*2): Hyosung India PVT Ltd. and Hyosung VINA Chemicals Co., Ltd. was excluded due to the spin-off of the current period and the relevant capital contribution of KRW 218,691 million was excluded from the contribution details of the Company.

(In millions of Korean won)

| | 2017 | | | | | | |
|--|-----------|--------|------------|---------------|-------------|----------|--------------|
| | Beginning | Loans | Collection | Loans written | Translation | Ending | Contribution |
| Subsidiaries | | | | | | | |
| Gongdeok Kyoung Woo Development Co., Ltd. | ₩ 20,361 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 20,361 | ₩ - |
| Galaxia Photonics Co., Ltd. (*1) | 5,541 | - | (1,259) | (4,282) | - | - | 5,397 |
| Pohang New & Renewable Energy Co., Ltd. (*2) | - | 2,200 | - | - | - | 2,200 | 500 |
| Baoding Hyosung Tianwei Transformer | 14,502 | 1,780 | - | - | (1,711) | 14,571 | - |
| Hyosung Resource (Australia) PTY Ltd. | - | - | - | - | - | - | 92 |
| Hyosung South Africa(PTY) LTD.(ㄹ4) | - | - | - | - | - | - | - |
| Lloyd Dynamowerke GmbH(ㄹ5) | - | 23,721 | (1,021) | (22,700) | - | - | - |
| Associates | | | | | | | |
| Gwangju Ilbo Corporation | 7,149 | - | - | - | - | 7,149 | - |
| Suncheon Eco Green Co., Ltd. (*6) | - | 924 | - | - | - | 924 | - |
| PT. Gelora Mandiri Membangun | 5,345 | - | - | - | (607) | 4,738 | - |
| Others | | | | | | | |
| Jin Hung International Co. | - | - | - | - | - | - | 28,400 |

(*1) KRW 1,259 million of loans to Galaxia Photonics Co., Ltd. were collected and KRW 5,397 million, including accrued interest, was converted into equity.

(*2): The Company gave loan to Pohang Renewable Energy Inc. during 2017 and invested KRW 500 million.

(*3): The Company established KRW 7,659 million of impairment provision for the loans to Baoding Hyosung Tianwei Transformer Co., Ltd. as at December 31, 2017, and recognized impairment losses amounting to KRW 1,692 million during 2017.

(*4): Hyosung South Africa (PTY) Ltd. was newly established during 2017.

(*5): Lloyd Dynamowerke GmbH was excluded from the scope of related parties due to disposal during 2017.

(*6): The Company converted all of the performance guarantee deposits to Suncheon Eco Green Corporation into loans. The Company established KRW 924 million of impairment provision for all of the loans to Suncheon

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Eco Green Corporation as at December 31, 2017, and recognized impairment losses amounting to KRW 924 million during the year.

(4) 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 | ₩ 6,969 | ₩ 5,730 |
| Post-employment benefits | 731 | 383 |
| | <u>₩ 7,700</u> | <u>₩ 6,113</u> |

(5) Details of payment guarantees provided by the Company for the financial supports to the related parties as at December 31, 2018 and 2017 are as follows:

| | | 2018 | | | |
|------------------------------|----------|-------------------|------------|----------------------|------------------------------------|
| | | Guaranteed amount | Remark | Amount of borrowings | Guaranteed by |
| Subsidiaries | | | | | |
| | ₩ | 43,606 | Borrowings | ₩ 12,299 | KEB Hana Bank and others |
| | | 111,027 | Borrowings | 98,393 | KB Kookmin Bank and others |
| | | 8,944 | Borrowings | - | Woori Bank |
| | | 170,000 | Borrowings | 170,000 | Korean Development Bank and others |
| Other related parties | | | | | |
| | | 120,755 | Borrowings | 91,023 | Korean Development Bank and others |
| | <u>₩</u> | <u>454,332</u> | | <u>₩</u> | <u>371,715</u> |

The Company provides 2 checks and 4 notes as collaterals to Oksan Ochang Highway Corporation and Soonchon Eco Green Corporation (Note 39).

(6) Details of collaterals provided by the Company for the financial supports to the related parties as at December 31, 2018 and 2017 are as follows:

| | | 2018 | | | | | |
|---------------------|----------|-----------------|----------------|-----------------|------------|----------------------|-------------------------------------|
| | | Carrying amount | Secured amount | Secured asset | Remark | Amount of borrowings | Provided by |
| Subsidiaries | | | | | | | |
| | ₩ | | ₩ | | | | |
| | | 974 | 974 | Equity security | Borrowings | 170,000 | Korean Development Bank and others |
| Associates | | | | | | | |
| | | - | - | Equity security | Borrowings | 37,915 | Industrial Bank of Korea and others |
| | | 6,510 | 6,510 | Equity security | Borrowings | 55,795 | Woori Bank and others |
| | <u>₩</u> | <u>7,484</u> | <u>₩</u> | <u>7,484</u> | | <u>263,710</u> | |

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22. 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) | | | |
|--------------------------|-----------------------------|---------------|-------------|------------------|
| | <u>2018</u> | | <u>2017</u> | |
| Trade payables | ₩ | 29,784 | ₩ | 991,921 |
| Other payables | | 45,595 | | 426,228 |
| Long-term other payables | | 16,314 | | 204,618 |
| | ₩ | <u>91,693</u> | ₩ | <u>1,622,767</u> |

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

| | (In millions of Korean won) | | | |
|---------------------------------|-----------------------------|---------------|-------------|----------------|
| | <u>2018</u> | | <u>2017</u> | |
| Other payables | | | | |
| Non-trade payables | ₩ | 26,660 | ₩ | 299,827 |
| Accrued expenses | | 5,426 | | 59,737 |
| Withholdings | | 12,208 | | 21,136 |
| Deposits received | | 1,301 | | 45,528 |
| | | <u>45,595</u> | | <u>426,228</u> |
| Long-term other payables | | | | |
| Non-trade payables | | 5,804 | | 6,619 |
| Accrued expenses | | 353 | | 6,144 |
| Deposits received | | 10,157 | | 191,855 |
| | | <u>16,314</u> | | <u>204,618</u> |
| | ₩ | <u>61,909</u> | ₩ | <u>630,846</u> |

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

| | <u>2018</u> | <u>2017</u> |
|---------------|-------------|-------------|
| Discount Rate | 1.60%~3.40% | 1.60%~5.00% |

(4) The fair values of trade payables and other payables as at December 31, 2018 and 2017 are similar to the carrying amounts.

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23. Borrowings

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

| | (In millions of Korean won) | |
|-------------------------------------|-----------------------------|------------------|
| | 2018 | 2017 |
| Short-term borrowings | ₩ - | ₩ 483,894 |
| Borrowings of sales receivables(*1) | 701 | 249,445 |
| Long-term borrowings | 1,171 | 639,281 |
| Debentures | - | 757,203 |
| | 1,872 | 2,129,823 |
| Less: current portion | (837) | (1,318,461) |
| | <u>₩ 1,035</u> | <u>₩ 811,362</u> |

(*1): The Company sells trade receivables in foreign currency to financial institutions and accounted for as collateralized borrowings for transactions in which the Company has recourse obligation to pay the relevant amount to the bank when the sales customer goes bankrupt (Notes 7 and 39).

The Company provides some of the Company's property, plant and equipment as collateral for the above borrowings (Notes 15 and 39).

(2) Details of carrying amount of short-term borrowings as at December 31, 2018 and 2017 are as follows:

| | | | (In millions of Korean won) | | |
|--|-----------------------|----------------------|-----------------------------|--------------|------------------|
| | Creditor | Latest Maturity date | Annual interest rate(%) | 2018 | 2017 |
| Short-term borrowings denominated in Korean won | | | | | |
| General loan | - | - | - | ₩ - | ₩ 223,820 |
| Short-term borrowings denominated in foreign currency | | | | | |
| General loan | - | - | - | - | 10,714 |
| Others | Woori Bank and others | - | 3.29 | 701 | 498,805 |
| | | | | <u>₩ 701</u> | <u>₩ 733,339</u> |

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(3) Details of carrying amount of long-term borrowings as at December 31, 2018 and 2017 are as follows:

| | | (In millions of Korean won) | | | | |
|---|-----------------|-----------------------------|-------------------------------|---------|-----------|--|
| | Creditor | Latest Maturity date | Annual interest rate(%) | 2018 | 2017 | |
| Long-term borrowings denominated in Korean won | | | | | | |
| General loan | Korea Enegy Co. | 2027-12-15 | 0.75 | ₩ 1,171 | ₩ 81,307 | |
| Facility loan | - | - | - | - | 338,641 | |
| Long-term borrowings denominated in foreign currency | | | | | | |
| General loan | - | - | - | - | 165,764 | |
| Facility loan | - | - | - | - | 53,570 | |
| Total | | | | 1,171 | 639,281 | |
| Less: Current portion | | | | (136) | (296,649) | |
| | | | | ₩ 1,035 | ₩ 342,632 | |

24. Post-employment Benefits

(1) Defined Benefit Plan

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 | ₩ 78,725 | ₩ 373,689 | |
| Fair value of plan assets(*1) | (73,823) | (358,084) | |
| Net defined benefit liabilities | ₩ 4,902 | 15,605 | |

(*1): The contributions to the National Pension Fund of KRW 77 million are included in the fair value of plan assets as at December 31, 2018 (2017: KRW 406 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 | ₩ 23,891 | ₩ 47,479 | |
| Interest expense | 4,419 | 7,934 | |
| Service cost of the past period and adjustment | 21,866 | - | |
| Interest income | (5,370) | (9,429) | |
| | ₩ 44,805 | ₩ 45,984 | |

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

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| | (In millions of Korean won) | | | |
|-------------------------------------|-----------------------------|--------|------|--------|
| | 2018 | | 2017 | |
| Cost of sales | ₩ | 24,327 | ₩ | 27,616 |
| Selling and administrative expenses | | 18,148 | | 16,056 |
| Research and development expenses | | 2,330 | | 2,312 |
| | ₩ | 44,805 | ₩ | 45,984 |

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 | ₩ | 373,688 | ₩ | 355,941 |
| Current service cost | | 23,891 | | 47,749 |
| Interest expense | | 4,419 | | 7,934 |
| Service cost of the past period and adjustment | | 21,866 | | - |
| Benefit payments | | (18,186) | | (18,050) |
| Remeasurements: | | | | |
| Actuarial loss from change in demographic assumptions | | 1,091 | | - |
| Actuarial loss (gain) from change in financial assumptions | | 2,427 | | (16,780) |
| Actuarial loss (gain) from experience adjustments | | (8,480) | | (4,593) |
| Transfer from(to) associates | | (1,198) | | (32) |
| Effect of business combination and spin-off | | (320,793) | | 1,790 |
| Ending Balance | ₩ | 78,725 | ₩ | 373,689 |

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 | ₩ | 358,084 | ₩ | 324,277 |
| Interest income | | 5,370 | | 9,429 |
| Employer's contributions | | 14,289 | | 46,300 |
| Benefit payments | | (27,305) | | (16,836) |
| Remeasurements | | (3,172) | | (5,060) |
| Transfer from(to) associates | | 4,410 | | (26) |
| Effect of business combination and spin-off | | (277,853) | | - |
| Ending balance | ₩ | 73,823 | ₩ | 358,084 |

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

| | (In millions of Korean won) | | | |
|------------------|-----------------------------|-------------|-----------|-------------|
| | 2018 | | 2017 | |
| | Amount | Portion (%) | Amount | Portion (%) |
| Deposits | ₩ 52,120 | 71.57 | ₩ 245,953 | 68.65 |
| Debt instruments | 21,703 | 29.43 | 112,131 | 31.35 |
| | ₩ 73,823 | 100 | ₩ 358,084 | 100 |

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:

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(In millions of Korean won)

| | 2018 | 2017 |
|---------------------------|---------|---------|
| Before income tax effects | ₩ 1,790 | 16,314 |
| Income tax effects | (433) | (3,948) |
| After income tax effects | ₩ 1,357 | 12,366 |

(*): Accumulated remeasurements of net defined benefit liabilities recognized as other comprehensive income (expenses) is KRW 46,614 million as at December 31, 2018 (2017: KRW 47,971 million).

8) The significant actuarial assumptions as at December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|------------------|-------|-------|
| Discount rate | 2.75% | 3.19% |
| Wage growth rate | 2.44% | 2.55% |

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

| | Changes in assumption | Impact on defined benefit obligation |
|------------------|------------------------|--------------------------------------|
| Discount rate | 1.0% increase/decrease | 3.6% decrease / 5.8% increase |
| Wage growth rate | 1.0% increase/decrease | 4.2% increase / 3.6% 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 separate statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

10) The Company 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 5,398 million and expected balance of plan assets are KRW 75,106 million as at December 31, 2019.

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

(In millions of Korean won)

| | Less than 1 year | Between 1~2 years | Between 2~5 years | Over 5 years (*1) | Total |
|------------------|---------------------|----------------------|----------------------|----------------------|----------|
| Pension benefits | ₩ 1,101 | ₩ 1,234 | ₩ 1,654 | ₩ 63,761 | ₩ 70,750 |

(*1): The amount includes financial impact on defined benefit plan of executives and contract employees.

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

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(2) Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was KRW 2,018 million (2017: KRW 6,521 million).

25. 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 | ₩ | 66,716 | ₩ | 115,540 |
| Adjustments in respect of prior years(*1) | | (4,209) | | (96,481) |
| Total current tax | | 62,507 | | 19,060 |
| Deferred tax | | | | |
| Origination and reversal of temporary differences | | 2,492 | | (49,864) |
| Total deferred tax | | 2,492 | | (49,864) |
| Income tax expense(income) | ₩ | 64,999 | ₩ | (30,804) |
| Income tax expense(income) from discontinued operation | | 66,070 | | 77,757 |
| Income tax expense(income) from continued operation | | (1,071) | | (108,561) |

(2) Details of reconciliation between the tax on the Company'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 | ₩ | 3,084,515 | ₩ | 285,263 |
| Tax calculated at tax rates | | 745,991 | | 68,572 |
| Tax effects of | | | | |
| Income not subject to tax | | (691,381) | | (5,354) |
| Expenses not deductible for tax purposes | | 13,432 | | 26,084 |
| Unrecognized deferred income tax assets | | 21,025 | | (2,490) |
| Adjustment in respect of prior years | | (8,902) | | (96,481) |
| Tax credits | | (18,631) | | (23,052) |
| Others | | 3,465 | | 1,917 |
| Income tax expense(benefit) | ₩ | 64,999 | ₩ | (30,804) |
| Income tax expense(income) from discontinued operation | | 66,070 | | 77,757 |
| Income tax expense(income) from continued operation | | (1,071) | | (108,561) |

(3) The tax effects relating to components of other comprehensive income (expenses) for the years ended December 31, 2018 and 2017 are as follows:

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| | (In millions of Korean won) | | | | | |
|--|-----------------------------|-----------------|--------------------|-------------------|----------------|-------------------|
| | 2018 | | | 2017 | | |
| | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| Gain(Loss) on valuation of available-for-sale assets | ₩ (157,425) | ₩ 38,097 | ₩ (119,328) | ₩ 21,990 | ₩ (5,322) | ₩ 16,669 |
| Remeasurement of net defined benefit liabilities | (61,495) | 14,882 | (46,614) | (63,286) | 15,315 | (47,971) |
| | <u>₩ (218,920)</u> | <u>₩ 52,979</u> | <u>₩ (165,942)</u> | <u>₩ (41,296)</u> | <u>₩ 9,994</u> | <u>₩ (31,302)</u> |

- (4) 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 |
| Deferred tax assets | | |
| Deferred tax asset to be recovered after more than 12 months | ₩ 25,916 | ₩ 256,967 |
| Deferred tax asset to be recovered within 12 months | 826 | 45,158 |
| | <u>26,742</u> | <u>302,125</u> |
| Deferred tax liabilities | | |
| Deferred tax liability to be recovered after more than 12 months | (165,464) | (404,615) |
| Deferred tax liability to be recovered within 12 months | (2,250) | (2,125) |
| | <u>(167,714)</u> | <u>(406,741)</u> |
| Deferred tax assets(liabilities), net | <u>₩ (140,972)</u> | <u>₩ (104,615)</u> |

- (5) 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 | ₩ (104,615) | ₩ (158,156) |
| Tax charged to the statement of profit or loss | (2,492) | 49,864 |
| Tax charged (credited) to components of other comprehensive income | (29,517) | 3,677 |
| Transfer by spin-off | (4,347) | - |
| Ending balance | <u>₩ (140,972)</u> | <u>₩ (104,615)</u> |

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- (6) 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:

<FY2018>

(In millions of Korean won)

| | 2018 | | | | |
|---|--------------------|-----------------------------|----------------------------|----------------------|--------------------|
| | Beginning balance | Statement of profit or loss | Other comprehensive income | Transfer by spin-off | Ending balance |
| Deferred tax liabilities | | | | | |
| Gains on revaluation of land | ₩ (280,913) | ₩ 1 | ₩ | ₩ 184,702 | ₩ (96,210) |
| Investment in subsidiaries and associates | (28,752) | 121 | (22,837) | 4,368 | (47,100) |
| Defined benefit pension plan assets | (86,558) | 783 | 768 | 67,161 | (17,847) |
| Reserve for research and human resource development | (4,033) | 4,033 | - | - | - |
| Gain from fire insurance policy | (102) | 2 | - | 101 | - |
| Others | (7,096) | 271 | - | 267 | (6,557) |
| | <u>(407,455)</u> | <u>5,211</u> | <u>(22,070)</u> | <u>256,599</u> | <u>(167,714)</u> |
| Deferred tax assets | | | | | |
| Available-for-sale financial assets | 97,215 | (588) | (6,247) | (88,145) | 2,236 |
| Post-employment benefit obligation | 85,711 | 7,452 | (1,201) | (74,321) | 17,641 |
| Provision for receivables in excess of tax limit | 27,858 | (4,624) | - | (22,955) | 279 |
| Government grants | 4,450 | (474) | - | (74) | 3,902 |
| Loss on valuation of inventories | 11,380 | (3,078) | - | (8,242) | 60 |
| Impairment loss on property, plant and equipment | 35,912 | 333 | - | (35,453) | 792 |
| Provision for guarantees | 10,754 | (10,754) | - | - | - |
| Accrued compensated absences | 4,727 | 1,075 | - | (5,314) | 488 |
| Provision for warranties | 12,380 | 1,121 | - | (13,501) | - |
| Provision for construction loss | 3,025 | (744) | - | (2,282) | - |
| Long-term employment allowance | 1,487 | (14) | - | (1,388) | 85 |
| Others | 7,940 | 2,591 | - | (9,271) | 1,260 |
| | <u>302,839</u> | <u>(7,703)</u> | <u>(7,448)</u> | <u>(260,947)</u> | <u>26,742</u> |
| | <u>₩ (104,615)</u> | <u>₩ (2,492)</u> | <u>₩ (29,517)</u> | <u>₩ (4,347)</u> | <u>₩ (140,972)</u> |

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<FY2017>

(In millions of Korean won)

| | 2017 | | | |
|---|----------------------|--------------------------------|----------------------------------|--------------------|
| | Beginning balance | Statement of profit or loss | Other comprehensive income | Ending balance |
| Deferred tax liabilities | | | | |
| Gains on revaluation of land | ₩ (283,476) | ₩ 2,563 | ₩ - | ₩ (280,913) |
| Investment in subsidiaries and associates | (28,752) | - | - | (28,752) |
| Defined benefit pension plan assets | (78,371) | (9,412) | 1,224 | (86,558) |
| Reserve for research and human resource development | (12,100) | 8,067 | - | (4,033) |
| Gain from fire insurance policy | (106) | 4 | - | (102) |
| Others | (6,047) | (1,049) | - | (7,096) |
| | <u>(408,852)</u> | <u>173</u> | <u>1,224</u> | <u>(407,455)</u> |
| Deferred tax assets | | | | |
| Available-for-sale financial assets | 86,652 | 2,938 | 7,625 | 97,215 |
| Post-employment benefit obligation | 81,141 | 9,742 | (5,172) | 85,711 |
| Provision for receivables in excess of tax limit | 21,924 | 5,934 | - | 27,858 |
| Government grants | 4,772 | (322) | - | 4,450 |
| Loss on valuation of inventories | 6,684 | 4,696 | - | 11,380 |
| Impairment loss on property, plant and equipment | 12,868 | 23,044 | - | 35,912 |
| Provision for guarantees | - | 10,754 | - | 10,754 |
| Accrued compensated absences | 4,182 | 545 | - | 4,727 |
| Provision for warranties | 10,914 | 1,466 | - | 12,380 |
| Provision for construction loss | 3,557 | (532) | - | 3,025 |
| Long-term employment allowance | 1,564 | (78) | - | 1,487 |
| Others | 16,437 | (8,497) | - | 7,940 |
| | <u>250,696</u> | <u>49,691</u> | <u>2,453</u> | <u>302,839</u> |
| | <u>₩ (158,156)</u> | <u>₩ 49,864</u> | <u>₩ 3,677</u> | <u>₩ (104,615)</u> |

- (7) The Company 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 Company 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 Company did not recognize deferred income tax assets of KRW 17,032 million as at December 31, 2018 (2017: KRW 56,813 million).

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26. Other Liabilities

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

| | (In millions of Korean won) | | | |
|---|-----------------------------|--------------|------|----------------|
| | 2018 | | 2017 | |
| Other current liabilities | | | | |
| Advances | ₩ | 2,727 | ₩ | 248,611 |
| Unearned revenues | | 14 | | 392 |
| | | <u>2,741</u> | | <u>249,004</u> |
| Other non-current liabilities | | | | |
| Long-term unearned revenues | ₩ | 601 | ₩ | 20,920 |
| Provision for construction warranties(*1) | | - | | 51,156 |
| Provision for product warranties(*2) | | - | | 50,589 |
| | | <u>601</u> | | <u>122,666</u> |
| | ₩ | <u>3,342</u> | ₩ | <u>371,669</u> |

(*1): As at December 31, 2017, the Company accrued provision for warranties in relation to construction contract for the foreseeable expenses; such as, defect repairs based on the past experience.

(*2): As at December 31, 2017, the Company sets the expected expenses as provisions for guarantee obligations for subsidiaries' liquidation.

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

| | (In millions of Korean won) | | |
|-------------------------|-----------------------------|-------------------|------------|
| | 2018 | | |
| | Construction warranties | Payment guarantee | Total |
| Beginning balance | ₩ 51,156 | ₩ 50,589 | ₩ 101,745 |
| Additional provisions | 11,251 | - | 11,251 |
| Used during the year | (6,617) | (7) | (6,624) |
| Others(Transfer) | - | (44,646) | (44,646) |
| Movements from spin-off | (55,790) | (5,936) | (61,726) |
| Ending balance | <u>₩ -</u> | <u>₩ -</u> | <u>₩ -</u> |

| | (In millions of Korean won) | | |
|-----------------------|-----------------------------|-------------------|------------------|
| | 2017 | | |
| | Construction warranties | Payment guarantee | Total |
| Beginning balance | ₩ 45,099 | ₩ 5,499 | ₩ 50,598 |
| Additional provisions | 27,805 | 50,505 | 78,310 |
| Used during the year | (21,748) | (5,415) | (27,163) |
| Ending balance | <u>₩ 51,156</u> | <u>₩ 50,589</u> | <u>₩ 101,745</u> |

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27. Share Capital

- (1) The Company'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 ₩5,000 per share.
- (2) Movements in share capital and additional paid in capital for the years ended December 31, 2018 and 2017 are as follows:

| | Number of authorized shares | (In millions of Korean won) | | |
|-------------------------------------|-----------------------------------|-----------------------------|------------------|-----------|
| | | Share capital | Share premium | Total |
| Balance at January 1, 2017 | 35,117,455 | ₩ 175,587 | ₩ 130,826 | ₩ 306,413 |
| Balance at January 1, 2018 | 35,117,455 | 175,587 | 130,826 | 306,413 |
| Spin-off | (21,322,304) | (106,612) | (79,434) | (186,046) |
| Capital increase with consideration | 7,275,874 | 36,379 | 399,796 | 436,175 |
| Balance at December 31, 2018 | 21,071,025 | ₩ 105,354 | ₩ 451,188 | ₩ 556,542 |

28. Retained Earnings

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

| | (In millions of Korean won) | | |
|---|-----------------------------|-------------|--------|
| | 2018 | 2017 | Remark |
| Legal reserves | ₩ 75,670 | ₩ 59,036 | (*1) |
| Discretionary reserves | | | |
| Research and development reserves | 16,667 | 50,000 | (*2) |
| Facility reserves | 2,677,000 | 2,522,000 | |
| Unappropriated retained earnings | 3,059,642 | 306,053 | |
| | ₩ 5,828,979 | ₩ 2,937,089 | |

(*1): The Commercial Act of the Republic of Korea requires the Company 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 Company 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.

- (2) The appropriation of retained earnings for the years ended December 31, 2018 and 2017 are as follows:

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| | (In millions of Korean won) | |
|---|-----------------------------|----------------|
| | <u>2018</u> | <u>2017</u> |
| Unappropriated retained earnings carried over from prior year | ₩ 1,409 | ₩ (22,380) |
| Remeasurements of net defined benefit liabilities | 1,357 | 12,366 |
| Profit for the year | 3,019,516 | 316,067 |
| Transfers such as discretionary reserves | | |
| Research and development reserves | 1,667 | 33,333 |
| Retained earnings available for appropriation | <u>3,076,309</u> | <u>339,386</u> |
| Appropriation of retained earnings | | |
| Legal reserves | - | 16,634 |
| Facility reserves | 2,970,000 | 155,000 |
| Dividends (Cash dividend (%)) : | 101,654 | 166,343 |
| Ordinary share: | | |
| ₩5,000 (100%) in 2018 | | |
| ₩5,000 (100%) in 2017 | | |
| Unappropriated retained earnings to be carried forward | <u>₩ 4,655</u> | <u>₩ 1,409</u> |

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29. 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 | ₩ | 250,410 | ₩ | 250,410 |
| Treasury shares(*1) | | (14,223) | | (34,204) |
| Changes in value of financial assets measured at fair value through other comprehensive | | (119,328) | | - |
| Gain(Loss) on valuation of available-for-sale financial assets | | - | | 16,669 |
| Currency translation | | - | | (2,666) |
| Gain from disposal of treasury shares(*1) | | 183,913 | | - |
| Losses on capital reduction(*2) | | (4,816,959) | | - |
| | ₩ | (4,516,187) | ₩ | 230,209 |

(*1): The Company 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 Company 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.

(2) Changes in accumulated other comprehensive income for the years ended December 31, 2018 and 2017 are as follows:

(In millions of Korean won)

| | 2018 | | | | | | | |
|---|-------------------|---------------------|--------------------------|-----------------------|-------------------------|----------------|---------|-------------|
| | Beginning balance | Increase (Decrease) | Reclass to profit of the | Effect from change in | Movements from spin-off | Ending balance | | |
| Changes in value of financial assets at fair value through other comprehensive income | ₩ | - | ₩ (93,372) | ₩ | - | ₩ (25,409) | ₩ (547) | ₩ (119,328) |
| Gain on valuation of Available-for-sale financial assets | | 16,669 | - | | - | (16,669) | - | - |
| Currency translation differences | | (2,666) | (901) | | - | - | 3,567 | - |
| | ₩ | 14,003 | ₩ (94,273) | ₩ | - | ₩ (42,078) | ₩ 3,020 | ₩ (119,328) |

(In millions of Korean won)

| | 2017 | | | | |
|--|-------------------|---------------------|---------------------------------|----------------|----------|
| | Beginning balance | Increase (Decrease) | Reclass to profit of the period | Ending balance | |
| Gain on valuation of Available-for-sale financial assets | ₩ | 40,552 | ₩ (23,714) | ₩ (169) | ₩ 16,669 |
| Currency translation differences | | (754) | (3,037) | 1,125 | (2,666) |
| | ₩ | 39,798 | ₩ (26,751) | ₩ 956 | ₩ 14,003 |

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(*): Above changes in accumulated other comprehensive income are net of income tax (Note 25).

30. Revenue

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

| | (In millions of Korean won) | | | |
|----------------|-----------------------------|---------|------|---------|
| | 2018 | | 2017 | |
| Merchandise | ₩ | 160,838 | ₩ | 105,469 |
| Finished goods | | 90,627 | | 88,756 |
| Other | | 100,846 | | 17,027 |
| | ₩ | 352,311 | ₩ | 211,252 |

31. 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 | ₩ | 8,914 | ₩ | 13,050 |
| Changes in merchandise | | 157,009 | | 103,287 |
| Raw materials and consumables used | | 29,473 | | 20,599 |
| Employee benefits expenses | | 53,822 | | 29,019 |
| Depreciation and amortization | | 11,400 | | 11,076 |
| Electricity expense | | 2,986 | | 3,087 |
| Export expense | | 2,753 | | 1,773 |
| Fuel expense | | 1,235 | | 1,142 |
| Service expense | | 17,773 | | 8,752 |
| Outsourcing expense | | 15,928 | | 16,114 |
| Others | | 73,686 | | 30,630 |
| Total(*1) | ₩ | 374,979 | ₩ | 238,529 |

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

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32. 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 | ₩ | 262,483 | ₩ | 550,240 |
| Employee welfare benefits | | 33,003 | | 74,774 |
| Pension costs - defined contribution plans | | 2,018 | | 6,521 |
| Pension costs - defined benefit plans (Note 24) | | 44,805 | | 45,984 |
| | ₩ | 342,309 | ₩ | 677,519 |

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

33. 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) | | | |
|---------------------------|-----------------------------|--------|------|--------|
| | 2018 | | 2017 | |
| Salaries | ₩ | 22,121 | ₩ | 18,686 |
| Post-employment benefits | | 4,811 | | 2,793 |
| Employee welfare benefits | | 1,535 | | 1,635 |
| Training | | 91 | | 108 |
| Transportation | | 862 | | 451 |
| Communications | | 209 | | 125 |
| Taxes and dues | | 1,612 | | 728 |
| Rental expenses | | 2,250 | | 1,558 |
| Depreciation | | 1,167 | | 1,735 |
| Amortization | | 2,702 | | 7,173 |
| Bad debt expenses | | 3 | | - |
| Entertainment | | 2,636 | | 2,583 |
| Advertising expense | | 3 | | 33 |
| Service fee | | 1,068 | | 573 |
| Professional service fee | | 6,342 | | 4,822 |
| Export expenses | | 545 | | 115 |
| Others | | 3,589 | | 3,053 |
| | ₩ | 51,546 | ₩ | 46,171 |

34. Other Income and Other Expenses

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

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| | (In millions of Korean Won) | |
|---|-----------------------------|-----------------|
| | 2018 | 2017 |
| Other income: | | |
| Rental income | ₩ 111 | ₩ 17 |
| Gain on disposal of property, plant and equipment | 620 | 15 |
| Reversal of provision for impairment loss on other assets | 1,482 | 941 |
| Dividend | 35,601 | 39,974 |
| Miscellaneous gains | 6,988 | 3,528 |
| | <u>44,802</u> | <u>44,475</u> |
| Other expense: | | |
| Loss on disposal of property, plant and equipment | 498 | 9 |
| Loss on disposal of intangible assets | 66 | 29 |
| Impairment loss on intangible assets | - | 6 |
| Other bad debt expenses | 567 | 22,863 |
| Donations | 1,287 | 49 |
| Miscellaneous losses | 1,553 | 855 |
| | <u>3,971</u> | <u>23,811</u> |
| Net other income (expense) | <u>₩ 40,831</u> | <u>₩ 20,664</u> |

35. Finance Income and Expenses

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

| | (In millions of Korean Won) | |
|--|-----------------------------|----------------|
| | 2018 | 2017 |
| Finance income | | |
| Interest income | ₩ 1,255 | ₩ 2,345 |
| Gain on disposal of financial assets | - | 328 |
| Gain on foreign currency transactions | 8,825 | 8,409 |
| Gain on foreign currency translation | 1,674 | 2,532 |
| Gain on derivative transactions | 701 | - |
| Gain on valuation of derivatives | - | 3,476 |
| Valuation gain on financial assets | 2,319 | - |
| | <u>14,774</u> | <u>17,090</u> |
| Finance expense | | |
| Interest expenses | 652 | 45 |
| Loss on foreign currency transactions | 9,215 | 6,646 |
| Loss on foreign currency translation | 840 | 1,768 |
| Loss on derivative transactions | 125 | - |
| Loss on valuation of derivatives | 121 | - |
| Impairment loss on financial assets | - | 2,495 |
| Loss on disposal of financial assets | 156 | - |
| Valuation loss on financial assets | 3,279 | - |
| Nego commission | 358 | - |
| Loss on disposal of account receivable | 65 | - |
| | <u>14,811</u> | <u>10,954</u> |
| Net finance income (expense) | <u>₩ (37)</u> | <u>₩ 6,136</u> |

The Company recognizes income and expenses related to exchange differences as finance income and expenses.

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36. 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 |
|---|-------------------|-------------------|
| Profit attributable to the ordinary equity holders(*1) (In millions of Korean Won) | | |
| Profit or loss of the year from continuing operation | 18,695 | 107,454 |
| Profit or loss of the year from discontinued operation | 3,000,820 | 208,614 |
| Weighted average number of ordinary shares outstanding | 21,690,071 shares | 33,268,604 shares |
| Earnings per shares (In Korean Won) | | |
| From continuing operation | 862 | 3,230 |
| From discontinued operation | 138,350 | 6,271 |

(*1): Profit attributable to the ordinary equity holders corresponds to the Company's profit.

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

| | 2018 | | | 2017 | | |
|---|--------------------------------|-------------------|--|--------------------------------|-----------------|--|
| | Outstanding ordinary shares | Weighted | Weighted average number of ordinary shares outstanding | Outstanding ordinary shares | Weighted | Weighted average number of ordinary shares outstanding |
| Beginning | 33,268,604 | 365 days/365 days | 33,268,604 | 33,268,604 | 365days/365days | 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 | 33,268,604 | - | 33,268,604 |

37. 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 separate financial statements do not reflect this dividend payable.

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38. 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 | |
| | ₩ | | ₩ | |
| Profit before income tax | ₩ | 3,084,515 | ₩ | 285,263 |
| Adjustments for | | | | |
| Interest income and expense, net | | 33,513 | | 72,876 |
| Gain (Loss) on foreign currency translation, net | | 2,473 | | (27,628) |
| Gain (Loss) on valuation of derivatives, net | | (1,038) | | (25,279) |
| Depreciation and amortization | | 122,940 | | 288,255 |
| Loss (Gain) on disposal of property, plant, equipment, intangible assets, and investment property | | 291 | | 9,945 |
| Impairment loss on property, plant, equipment, intangible assets, and investment property | | - | | 106,739 |
| Bad debt expense and other bad debt expense | | 3 | | 91,690 |
| Loss on valuation of inventories and loss on disposal | | 1,383 | | 20,904 |
| Gain (Loss) on valuation of financial assets, net | | 960 | | - |
| Gain (Loss) on disposal of financial assets, net | | 156 | | (328) |
| Impairment loss on financial assets | | - | | 17,052 |
| Impairment loss on investment in subsidiaries and associates | | 500 | | 64,449 |
| Dividend income | | (177,569) | | (192,049) |
| Post-employment benefits | | 44,805 | | 45,985 |
| Additional provisions | | 11,251 | | 70,505 |
| Loss on disposal of trade receivables | | 598 | | 1,166 |
| Long-term employee benefits | | 512 | | 923 |
| Gain (Loss) on disposal of discontinued operation, net | | (2,828,778) | | - |
| Others | | (10,460) | | (4,830) |
| Changes in operating assets and liabilities | | | | |
| Decrease (increase) in trade receivables | | (36,642) | | (276,379) |
| Decrease (increase) in inventories | | (17,017) | | (56,613) |
| Increase in other receivables | | (30,829) | | (32,101) |
| Increase in due from customers for contract work | | (28,825) | | (25,768) |
| Decrease in other financial assets | | 9,062 | | 4,638 |
| Decrease (increase) in other assets | | (22,603) | | (21,022) |
| Decrease in Currency translation differences | | (901) | | (1,912) |
| Increase in trade payables | | (179,661) | | 301,763 |
| Increase (decrease) in other payables | | (98,477) | | (15,046) |
| Decrease in due to customers for contract work | | 55,939 | | (21,112) |
| Decrease in other financial liabilities | | (3,181) | | (29,505) |
| Decrease in other liabilities | | (3,392) | | - |
| Payment of warranty expenses | | (6,617) | | (15,520) |
| Payment of defined benefits | | (3,950) | | (3,475) |
| Contributions of plan assets | | (8,083) | | (46,300) |
| Cash generated from operations | ₩ | (89,122) | ₩ | 587,286 |

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 | ₩ 1,318,461 | ₩ 811,362 | ₩ 2,129,823 |
| Cash flow | 980,508 | 516,462 | 1,496,970 |
| Transfer to newly established companies by spin-off | (2,415,054) | (1,214,684) | (3,629,738) |
| Others(*1) | 116,922 | (112,105) | 4,817 |
| Ending balance | ₩ 837 | ₩ 1,035 | ₩ 1,872 |

(*1): Changes in foreign exchange rate and effect from liquidity reclassification were included.

39. Contingencies and Commitments

(1) Notes and others provided as collaterals

The Company provided 4 notes and 3 checks as collaterals to the customers and others as at December 31, 2018.

(2) Commitment with financial institution

The Company 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 81,534 million. Also, the Company entered into trade receivables discount agreements with a limit of KRW 66,800 million as at December 31, 2018.

(3) Guarantees provided for others

The Company has an obligation to provide a cash deficiency support amounting to KRW 170,000 million for Gongdeok Gyeongwoo Development Corporation for the period ended December 31, 2018 (2017: KRW 170,000 million). The Company has provided payment guarantees amounting to KRW 284,333 million for the subsidiaries (2017: KRW 2,631,383 million) (Note 21).

The Company entered into the agreements with Hanwha Life Insurance Co., Ltd. and 2 other financial institutions in relation to the borrowings of Hana Land Chip Private Real Estate Investment Trust No.39, one of the subsidiaries, amount to KRW 150,000 million for the year ended December 31, 2018 (2017: KRW 150,000 million). The Company has an obligation to purchase the specific real estate located in Gangnam-gu, Seoul at fair value in case of shortfalls to cover principal and interest expenses at maturity date.

In accordance with Article 530-9 (1) of Commercial Act of the Republic of Korea, the Company 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 Heavy Industries, Hyosung Advanced Materials Corporation

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and Hyosung Chemical Corporation. The Company 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.

(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 | |
| Seoul Guarantee Insurance | Payment guarantee related to construction project | ₩ | 98,458 |
| 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 Company's borrowings and others as at December 31, 2018 and 2017 are as follows:

(In millions of Korean Won)

| 2018 | | | |
|------------------------|-------------------------------|-----------------------|---------------------------------|
| Secured assets | Carrying amount of borrowings | Maximum pledge amount | Lien |
| Other financial assets | ₩ - | ₩ 5,621 | Machinery financial cooperative |
| Account receivables | 701 | 701 | Woori bank |
| | <u>₩ 701</u> | <u>₩ 6,322</u> | |

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

2) The equity for Gongdeok Gyeongwoo Development Corporation (subsidiaries, carrying amount: KRW 974 million) was provided as collateral for the borrowings of Gongdeok Gyeongwoo Development Corporation as at December 31, 2018. The equity for Pyeongchang Wind Power Corporation (investments in associates, carrying amount: KRW 6,510 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 of Soonchon Eco Green Corporation (Notes 20 and 21).

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(6) Pending lawsuits

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

(In millions of Korean Won)

| | 2018 | | |
|------------------------|--------------------|---------------|---|
| | Number of lawsuits | Claim amounts | Description |
| Lawsuit as a plaintiff | 7 cases | ₩ 12,567 | Administrative litigation on cancellation of corporate tax levy |
| Lawsuit as a dependent | 5 cases | 29,701 | 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 separate financial statements. Among the above lawsuits, there were 9 cases (claim amount: KRW 30,068 million) that was filed against the Company in relation to the newly established companies' business as at December 31, 2018.

40. Discontinued Operation

(1) Spin-off

As a result of the spin-off dated on June 1, 2018, the Company was separated into the surviving company; Hyosung Corporation that manages the equities and investments of the subsidiaries, and newly established companies; Hyosung TNC Corporation, Hyosung Heavy Industries, Hyosung Advanced Materials 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 Company existed before the spin-off. The details of spin-off are presented as follows:

| Entity type | Company name | Business segment |
|---------------------------------------|---------------------------|--|
| 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 statements of comprehensive income, respectively and the statement of comprehensive income herein presented as comparative purpose was restated.

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- (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:

| | (In millions of Korean Won) | | | |
|---|-----------------------------|-----------|------|-----------|
| | 2018 | | 2017 | |
| Revenue | ₩ | 3,657,746 | ₩ | 8,298,698 |
| Cost of sales | | 3,296,679 | | 7,341,291 |
| Gross profit | | 361,067 | | 957,407 |
| Selling and administrative expenses | | 180,865 | | 419,501 |
| Research and development expenses | | 39,907 | | 95,204 |
| Operating profit (loss) | | 140,295 | | 442,702 |
| Other income | | 157,855 | | 190,763 |
| Other expenses | | (9,703) | | (259,706) |
| Finance income | | 53,979 | | 289,363 |
| Finance expenses | | (104,313) | | (312,933) |
| Investment gain (Loss) on associates | | - | | (63,819) |
| Profit before income tax | | 238,113 | | 286,370 |
| Income tax benefit expense | | 66,070 | | 77,756 |
| Net profit for the year from discontinued operation | | 172,043 | | 208,614 |
| Gain (loss) from disposal of discontinued operation | | 2,828,778 | | - |
| Profit for the year from discontinued operation | ₩ | 3,000,821 | ₩ | 208,614 |

- (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 | ₩ | (118,982) | ₩ | 614,804 |
| Cash flows from investing activities | | (570,334) | | (297,103) |
| Cash flows from financing activities | | 649,979 | | (298,036) |
| Net cash flows | | (39,337) | | 19,665 |

Hyosung Corporation
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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) | |
|--|-----------------------------|-----------|
| | 2018 | |
| | ₩ | |
| Current assets | | 2,759,742 |
| Cash and cash equivalents | 679,882 | |
| Trade and other receivables | 1,116,982 | |
| Due from customers for contract work | 168,731 | |
| Inventories | 646,523 | |
| Other current assets | 135,833 | |
| Other financial assets | 11,791 | |
| Non-current assets | | 4,947,151 |
| Long-term trade and other receivables | 474,631 | |
| Property, plant and equipment | 2,793,443 | |
| Investment property | 419,514 | |
| Intangible assets | 32,120 | |
| Investments in subsidiaries and associates | 963,738 | |
| Other non-current financial assets | 201,734 | |
| Other non-current assets | 3,957 | |
| Deferred tax assets | 58,014 | |
| Total assets | | 7,706,893 |
| Current liabilities | | 3,906,469 |
| Trade and other payables | 1,084,317 | |
| Due to customers for contract work | 122,819 | |
| Borrowings | 2,415,054 | |
| Other financial liabilities | 76 | |
| Current tax liabilities | 56,670 | |
| Other current liabilities | 227,533 | |
| Non-current liabilities | | 1,629,218 |
| Long-term trade and other payables | 237,035 | |
| Long-term borrowings | 1,214,684 | |
| Other non-current financial liabilities | 1,225 | |
| Post-employment benefit obligation | 42,952 | |
| Deferred tax liabilities | 50,355 | |
| Other non-current liabilities | 82,967 | |
| Total liabilities | | 5,535,687 |
| Net assets | | 2,171,206 |

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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 | Total |
| Movements from spin-off | ₩ (106,612) | ₩ (79,434) | ₩ - | ₩ (4,609,258) | ₩ (4,795,304) |

(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 Company recognizes the dividend payables at fair value at the time when the Company declares the distribution and has had an obligation to distribute the relevant assets and liabilities. Accordingly, the Company 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 Company 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) | |
|--|-----------------------------|------------------|
| | <u>2018</u> | |
| Fair value of spin-off segment | ₩ | 5,003,004 |
| Carrying amount of spin-off segment | | (2,171,206) |
| Accumulated other comprehensive income of spin-off segment | | (3,020) |
| Gain from disposal of discontinued operation | ₩ | <u>2,828,778</u> |

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) | |
|-----------------------------------|-----------------------------|--------|
| | <u>2018</u> | |
| Textile and trading | ₩ | 9.96% |
| Heavy industries and construction | | 11.28% |
| Industrial materials | | 9.90% |
| Chemical products | | 10.87% |

Report on Independent Accountants' Review of Internal Accounting Control System

To the President of Hyosung Corporation

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Hyosung Corporation (the "Company") as at December 31, 2018. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as at December 31, 2018, the Company's IACS has been effectively designed and is operating as at December 31, 2018, in all material respects, in accordance with the IACS standards established by the Internal Accounting Control System Operations Committee (IACSOC) of the Korea Listed Companies Association.

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a Company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A Company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean IFRS. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards established by IACSOC.

Our review is based on the Company's IACS as at December 31, 2018, and we did not review management's assessment of its IACS subsequent to December 31, 2018. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Nexia Samduk

February 28, 2019
Seoul, Korea

Report on the Operations of the Internal Accounting Control System

To the Shareholders, Board of Directors and Audit committee of
Hyosung Corporation

We, as Chief Executive Officer and the Internal Accounting Control Officer of Hyosung Corporation (“the Company”), assessed the status of the design and operations of the Company’s internal accounting control system (“IACS”) for the year ended December 31, 2018.

The Company’s management including Chief Executive Officer and the Internal Accounting Control Officer is responsible for designing and operating IACS.

We evaluated whether the Company effectively designed and operated its IACS to prevent and detect any error or fraud which may cause any misstatement in the financial statements to ensure preparation and disclosure of reliable financial information. We used the ‘Conceptual Framework for Designing and Operating IACS established by the Operating Committee of IACS in Korea’ as the criterial for design and operation of the Company’s IACS.

Based on the assessment, we concluded that the Company’s IACS is designed and operated effectively as at December 31, 2018, in all material respects, in accordance with the Conceptual Framework for Designing and Operating IACS.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which may cause material misunderstanding of the readers, and we have reviewed and verified this report with sufficient care.

January 29, 2019

Kyu-Young Kim, Chief Executive Officer

Gwang-oh Kim, Internal Accounting Control Officer