

Hyosung Corporation

**Separate Financial Statements
December 31, 2017 and 2016**

Hyosung Corporation
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December 31, 2017 and 2016

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
Hyosung Corporation

We have audited the accompanying separate financial statements of Hyosung Corporation (the "Company"), which comprise the separate statements of financial position as at December 31, 2017 and 2016, and the separate statements of profit or loss, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on the separate financial statements based on our audits. We conducted our audits in accordance with Korean Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of Hyosung Corporation as at December 31, 2017 and 2016, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean IFRS.

Emphasis of Matters

Without qualifying our opinion, we draw attention to the following area of focus.

(1) Area of focus on construction contracts in accordance with the Practical Guidance of Auditing Standard 2017-1 are those matters that, in the auditor's professional judgment and communication with those charged with governance, were of most significance in the audit of the separate financial statements of the current period. These matters were addressed in the context of the 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.

We have addressed the output of the audit process for the area of focus as below in forming an audit opinion on the separate financial statements of Hyosung Corporation as a whole.

A. General Information

Common information applied to the area of focus on construction contract described in this audit report are as follows:

As explained in the Note 2 to the separate financial statements (Significant Accounting Policies), the Company recognizes contract revenue and contract costs associated with the construction contract as revenue and expense respectively based on the percentage of completion of the contract activity at the end of the reporting period when the outcome of a construction contract can be estimated reliably. The percentage of completion of the contract activity is the proportion that costs incurred to date, excluding any contract cost that does not reflect the work performed, bear to the estimated total costs of the contract. The Company presents the gross amount due from customer for contract work as an asset for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings, and presents the gross amount due to customers for contract work as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses). The Company's operating segments which apply accounting policies of construction contract are construction segment and part of Heavy industrial segment.

B. Input method

As explained in the Note 3 to the separate financial statements (Critical Accounting Estimates and Assumptions), total contract revenue is measured based on the initial amount of revenue agreed in the contract. However, the measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future event; for example, the amount of contract revenue may increase as a result of variations in contract work, claims and inventive payments, on the other hand, the amount of contract revenue may decrease as a result of penalties arising from delays caused by the Company in the completion of the contract. The measurement of contract revenue is also affected by the percentage of completion measured based on the aggregated amount costs incurred. Total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others.

Uncertainty of estimating total contract revenue and the changes in estimated total contract revenue and costs may have negative impacts on the profit or loss for the current period (or for the succeeding year); therefore, we identified revenue recognition based on the input method as a significant risk.

As at December 31, 2017, in respect of the Company's revenue recognition based on the input method, we have performed the following audit procedures.

- We assessed whether the accounting policy for revenue recognition is appropriate.
- We reviewed major contract terms and conditions.
- We reviewed the Company's internal control over reviews and approvals of new contracts by personnel with appropriate authority.

C. Uncertainty of estimated total contract costs (or estimated construction costs)

As explained in the Note 3 to the separate financial statements (Critical Accounting Estimates and Assumptions) and in the Note 31 to the separate financial statements (Construction Contracts), total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others. When the estimated total contract costs increase by 5%, profit before income tax and net assets before income tax effects would decrease by ₩ 126,169 million.

The measurement of estimated contract costs is affected by variety of uncertainties such as changes in the specifications or design, changes in construction environment, the extension of construction period, fluctuation of material cost, and others. The impacts of changes in estimated total contract costs on the profit or loss for the current period (or for the succeeding year) are considered; therefore, we identified uncertainty of estimated total contract costs as a significant risk.

As at December 31, 2017, in respect of the Company's uncertainty of estimated total contract costs, we have performed the following audit procedures.

- We tested for internal control activity to approve of total contract cost.
- We compared and performed analytical review procedures to determine the rate of cost of sales (total construction cost / total contract revenue) of each construction site.
- We checked whether there were final approvals of the total estimated contract costs and compare the amounts with the total contract cost in the Company's Financial Information Systems.
- We reviewed the cause of change for projects with significant fluctuations in total contract costs.
- We made inquiries about the cause of the significant difference in the estimated total contract cost at the end of 2016 and the final cumulative cost incurred of the project which ended during 2017.

D. Measurement of percentage of completion

The construction costs incurred of one site can be transferred to another site due to the variance in profit margins of sites and the identified factors causing the increase in the estimation of contract costs may not be reflected in the contract costs timely; therefore, we identified measurement of percentage of completion as a significant risk.

As at December 31, 2017, in respect of the Company's estimated total contract costs and aggregated cost incurred that have impacts on the measurement of percentage of completion, we have performed the following audit procedures.

- We tested the completeness and appropriateness of the aggregate costs incurred.
- We reviewed the journal entries prepared for the transfer of incurred expenses between construction sites.
- We tested whether costs are attributed to the corresponding projects.
- We recalculated the percentage of completion for construction contracts.
- We tested internal control of the Company in relation to approval and reporting process of the cost incurred.

E. Collectability of the gross amount due from customers for contract work

As the collectability of the gross amount due from customers for contract work is in doubt in case of the increase of unsold housing due to the real estate market situation or the deterioration of the financial condition of customers, we identified collectability of the gross amount due from customers for contract work as a significant risk.

As at December 31, 2017, in respect of the contract that has a significant increase in the gross amount due from customers for contract work, we have performed the following audit procedures.

- We identified contacts with significant differences between percentage of completion for accounting purpose and actual construction billing ratio in accordance with contractual right to demand for payment, and inquired about reasons of delays in billings and tested based on external evidences.
- We performed impairment test for the contracts with uncertainties in collectability.

F. Accounting treatment regarding variations in contract

As explained in Note 3 to the separate financial statements (Critical Accounting Estimates and Assumptions), as at December 31, 2017, the Company measures total contract revenue at the initial amount of revenue agreed in the contract; however, the measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events such as increase in contract revenue due to variations in contract work, claims and incentive payment; or decrease contract revenue as a result of penalties arising from delay caused by the Company in the completion of the contract. A variation is included in contract revenue when the amount of revenue can be reliably measured.

As explained in the Note 31 to the separate financial statements (Construction Contracts), changes in total contract revenue have occurred and while the total contract revenue is increased due to changes in specifications, estimated construction costs may not be timely updated. Accordingly there are risk of misstatements in contract revenue; therefore, we identified accounting treatment regarding variations in contract work as a significant risk.

As at December 31, 2017, in respect of accounting treatment regarding variations in contract work, we have performed the following audit procedures.

- We inquired on the Company's accounting policy for accounting treatment with regard to variations in contracts.
- In respect of construction contracts with changes in terms and conditions, we performed reconciliation for total contract revenue based on the Company's Financial Information Systems and external evidences.
- We determined whether additional contract cost estimated based on the variation in the contract has been reflected in measurement of estimated total contract cost and percentage of completion.

(2) Restatement of Prior Year Financial Statements

As explained in Note 41, the Company has restated its prior year financial statements to correct the understatement of impairment losses on available-for-sale financial assets as at December 31, 2013. As a result, the retained earnings and other comprehensive income for the year ended December 31, 2016, decreased and increased respectively by ₩ 24,403 million and there is no impact on the prior year's separate income statement of profit or loss.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Seoul, Korea

February 26, 2018

This report is effective as of February 26, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

(Attachment) Separate Financial Statements

Hyosung Corporation

The 63rd period

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

The 62nd period

From January 1st, 2016 to December 31st, 2016

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

CEO Kyu-Young Kim of Hyosung Corporation

The seat of headquarter :	Road name address	119 Mapo-daero, Mapo-gu, Seoul, Korea.
	Phone number	(02) 707-7000

Hyosung Corporation
Separate Statements of Financial Position
December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Notes	2017		2016	
Assets					
Current assets					
Cash and cash equivalents	4, 8, 9, 10	₩	46,622	₩	40,667
Trade and other receivables	4, 7, 8, 11, 21, 40		963,037		807,132
Due from customers for contract work	4, 8, 31		139,977		113,857
Other financial assets	4, 5, 8, 12		18,513		6,964
Other current assets	13		122,461		93,889
Inventories	14, 18		642,743		588,657
			<u>1,933,353</u>		<u>1,651,166</u>
Non-current assets					
Long-term trade and other receivables	4, 8, 11, 21		328,125		285,456
Property, plant and equipment	15, 18, 19, 40		3,339,790		3,330,048
Investment property	16		427,037		468,772
Intangible assets	17		24,430		84,092
Investments in subsidiaries and associates	20, 40		1,521,103		1,584,669
Other non-current financial assets	4, 5, 8, 10, 12, 40		242,214		246,585
Other non-current assets	13		28,231		29,481
			<u>5,910,930</u>		<u>6,029,103</u>
Total assets		₩	<u>7,844,283</u>	₩	<u>7,680,269</u>
Liabilities					
Current liabilities					
Trade and other payables	4, 8, 19, 21, 22, 40	₩	1,418,148	₩	1,170,858
Due to customers for contract work	31		76,705		91,981
Borrowings	4, 8, 23		1,318,461		1,248,896
Other financial liabilities	4, 5, 8, 12		3,198		29,534
Current tax liabilities			45,606		124,486
Other current liabilities	26, 31		249,004		218,502
			<u>3,111,122</u>		<u>2,884,257</u>
Non-current liabilities					
Long-term trade and other payables	4, 8, 19, 21, 22		204,618		57,992
Long-term borrowings	4, 8, 23		811,362		1,069,208
Other non-current financial liabilities	4, 5, 8, 12		584		6,467
Post-employment benefit obligation	24		15,605		31,664
Deferred tax liabilities	25		104,615		158,156
Other non-current liabilities	26, 40		122,666		55,309
			<u>1,259,450</u>		<u>1,378,796</u>
Total liabilities			<u>4,370,572</u>		<u>4,263,053</u>
Equity					
Share capital	27		175,587		175,587
Share premium			130,826		130,826
Retained earnings	28		2,937,089		2,774,999
Other components of equity	29		230,209		335,804
Total equity			<u>3,473,711</u>		<u>3,417,216</u>
Total liabilities and equity		₩	<u>7,844,283</u>	₩	<u>7,680,269</u>

The above separate statements of financial position should be read in conjunction with the accompanying notes.

Hyosung Corporation
Separate Statements of Profit or Loss
Years Ended December 31, 2017 and 2016

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

	Notes	2017	2016
Revenue	6, 21, 30, 31	₩ 8,509,950	₩ 7,974,341
Cost of sales	21, 31, 32, 33	<u>(7,362,130)</u>	<u>(6,614,455)</u>
Gross profit		1,147,820	1,359,886
Selling and administrative expenses	21, 32, 33, 34	(636,745)	(635,359)
Research and development expenses	32, 33	<u>(95,650)</u>	<u>(91,335)</u>
Operating profit	6	415,425	633,192
Other income	8, 21, 35	235,239	247,523
Other expenses	8, 21, 35	(299,792)	(106,101)
Finance income	8, 21, 36	306,454	292,162
Finance expenses	8, 36	(307,614)	(412,324)
Impairment loss on investment in subsidiaries and associates	20	<u>(64,449)</u>	<u>(29,212)</u>
Profit before income tax		285,263	625,240
Income tax benefit (expense)	25	<u>30,804</u>	<u>(86,868)</u>
Profit for the year		<u>₩ 316,067</u>	<u>₩ 538,372</u>
Basic earnings per share	37	₩ 9,500	₩ 16,183

The above separate statements of profit or loss should be read in conjunction with the accompanying notes.

Hyosung Corporation
Separate Statements of Comprehensive Income
Years Ended December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Notes	2017	2016
Profit for the year		<u>₩ 316,067</u>	<u>₩ 538,372</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liability	24, 25	12,366	(637)
<i>Items that may be subsequently reclassified to profit or loss</i>			
Changes in the fair value of available-for-sale financial assets	12, 29	(23,714)	8,946
Reclassification due to disposal of available-for-sale financial assets	12, 29	(169)	(3,131)
Exchange differences	29	<u>(1,912)</u>	<u>(341)</u>
Other comprehensive income for the period, net of tax		<u>(13,429)</u>	<u>4,837</u>
Total comprehensive income for the period		<u>₩ 302,638</u>	<u>₩ 543,209</u>

The above separate statements of comprehensive income should be read in conjunction with the accompanying notes.

Hyosung Corporation
Separate Statements of Changes in Equity
Years Ended December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Notes	Share capital	Share premium	Retained Earnings	Other Components of Equity	Total
Balance at January 1, 2016		₩ 175,587	₩ 130,826	₩ 2,353,704	₩ 330,330	₩ 2,990,447
Total comprehensive income						
Profit for the period		-	-	538,372	-	538,372
Change in value of available-for-sale financial assets		-	-	-	8,947	8,947
Reclassification due to disposal of available-for-sale financial assets		-	-	-	(3,132)	(3,132)
Remeasurements of net defined benefit liability		-	-	(637)	-	(637)
Exchange differences		-	-	-	(341)	(341)
Transactions with owners						
Dividends paid	38	-	-	(116,440)	-	(116,440)
Balance at December 31, 2016		<u>₩ 175,587</u>	<u>₩ 130,826</u>	<u>₩ 2,774,999</u>	<u>₩ 335,804</u>	<u>₩ 3,417,216</u>
Balance at January 1, 2017		₩ 175,587	₩ 130,826	₩ 2,774,999	₩ 335,804	₩ 3,417,216
Total comprehensive income						
Profit for the period		-	-	316,067	-	316,067
Change in value of available-for-sale financial assets		-	-	-	(23,714)	(23,714)
Reclassification due to disposal of available-for-sale financial assets		-	-	-	(169)	(169)
Remeasurements of net defined benefit liability		-	-	12,366	-	12,366
Exchange differences		-	-	-	(1,912)	(1,912)
Decrease due to merger	41	-	-	-	(79,800)	(79,800)
Transactions with owners						
Dividends paid	38	-	-	(166,343)	-	(166,343)
Balance at December 31, 2017		<u>₩ 175,587</u>	<u>₩ 130,826</u>	<u>₩ 2,937,089</u>	<u>₩ 230,209</u>	<u>₩ 3,473,711</u>

The above separate statements of changes in equity should be read in conjunction with the accompanying notes.

Hyosung Corporation
Separate Statements of Cash Flows
Years Ended December 31, 2017 and 2016

<i>(in millions of Korean won)</i>	Notes	2017	2016
Cash flows from operating activities			
Cash generated from operations	39	₩ 587,285	₩ 1,154,431
Income taxes paid		(93,498)	(63,885)
Interest paid		(70,018)	(86,681)
Interest received		822	877
Dividends received		191,890	189,810
Net cash inflow from operating activities		<u>616,481</u>	<u>1,194,552</u>
Cash flows from investing activities			
Decrease in loans		2,175	22,054
Proceeds from sale of short-term financial Instruments		31,379	7
Proceeds from sale of available-for-sale financial assets		823	48,169
Collection of long-term loans		27,429	-
Decrease in long-term deposits provided		7,954	5,408
Proceeds from sale of property, plant and equipment		2,253	8,437
Government grants received		343	1,269
Proceeds from sale of investment property		56,000	5,416
Proceeds from sale of intangible assets		1,212	5,542
Proceeds from sale of investment in subsidiaries and associates		7	1,639
Proceeds from sale of long-term financial Instruments		318	-
Increase in cash due to merger		22,617	-
Increase in short-term loans		(2,480)	(46,148)
Payments for available-for-sale financial assets		(71,858)	(8,333)
Increase in long-term loans		(162,475)	(39,676)
Increase in long-term deposits provided		(17,374)	(9,029)
Payments for property, plant and equipment		(172,975)	(276,183)
Payments for investment property		(780)	(4,326)
Payments for intangible assets		(4,545)	(4,848)
Payment for acquisition of subsidiaries and associates, net of cash acquired		(883)	(5,850)
Payment for acquisition of short-term financial instruments		(29,075)	-
Payments for long-term financial instruments		(2,482)	(2,413)
Payments for other investments		(22)	(160)
Net cash outflow from investing activities		<u>(312,439)</u>	<u>(299,025)</u>
Cash flows from financing activities			
Proceeds from short-term borrowings		6,469,089	5,989,480
Proceeds from long-term borrowings		60,000	184,395
Proceeds from issuance of debentures		-	348,867
Government grants received		1,830	2,598
Repayment of short-term borrowings		(6,188,062)	(6,371,093)
Repayment of current portion of long-term borrowings		(472,752)	(813,540)
Repayment of long-term borrowings		-	(100,000)
Repayment of government grants		(1,850)	(1,133)
Dividends paid		(166,343)	(116,440)
Net cash outflow from financing activities		<u>(298,088)</u>	<u>(876,866)</u>
Net increase in cash and cash equivalents		5,954	18,661
Cash and cash equivalents at the beginning of the financial year		40,667	22,006
Cash and cash equivalents at the end of the year		<u>₩ 46,621</u>	<u>₩ 40,667</u>

The above separate statements of cash flows should be read in conjunction with the accompanying notes.

Hyosung Corporation

Notes to the Separate Financial Statements

December 31, 2017 and 2016

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 at December 31, 2017, the Company has plants in Ulsan, Anyang, Yongyeon, Gumi, Daegu, Changwon, Daejeon, etc. In addition, the Company has subsidiaries and branches all over the world.

As at December 31, 2017, the Company's major shareholders are Cho Hyun-Joon (14.27%), Cho Hyun-Sang (12.21%), and Cho Seok-Rae (10.18%).

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.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board ("IASB") that have been adopted by the Republic of Korea.

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.

Hyosung Corporation

Notes to the Separate Financial Statements

December 31, 2017 and 2016

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any impact on the financial statements.

- Amendments to Korean IFRS 1007 Statement of Cash Flows

Amendments to Korean IFRS 1007 Statement of Cash flows require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendments to Korean IFRS 1012 Income Tax

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

- Amendments to Korean IFRS 1112 Disclosures of Interests in Other Entities

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

(b) New and amended standards not yet adopted

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2017, and have not been early adopted by the Company are set out below.

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

When an investment in an associate or a joint venture is held by, or held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with Korean IFRS 1109. The amendments clarify that an entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. These amendments for annual periods beginning on or after January 1, 2018, permitted. The Company does not expect the amendments to have a significant impact on the financial statements because the Company is not a venture capital organization.

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- 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 amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendment to have a significant impact 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 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the amendments to have a significant impact 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 enactment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect the enactments to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

At inception of a contract, the entity shall assess whether the contract is, or contains, a lease. Also, at the date of initial application, the entity shall assess whether the contract is, or contains, a lease in accordance with the standard. However, the entity will not need to reassess all contracts with applying the practical expedient because the entity elected to apply the practical expedient only to contracts entered before the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset

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December 31, 2017 and 2016

and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below ₩ 5 million). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

Lessee accounting

The method

A lessee shall apply this standard to its leases either:

- retrospectively to each prior reporting period presented applying Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* (Full retrospective application); or
- retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application.

The Company has not yet elected the application method.

The financial impact

The Company is going to perform an impact assessment to identify potential financial effects of applying Korean IFRS 1116 during the year of 2018. The Company is analyzing the effects on the financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

Lessor accounting

The method and the financial impact

The Company expects the effect on the financial statements applying the new standard will not be significant as accounting for the Company, as a lessor, will not significantly change.

- Enactment of Korean IFRS 1109 *Financial Instruments*

The new standard for financial instruments issued on September 25, 2015 are effective for annual periods beginning on or after January 1, 2018 with early application permitted. This standard will replace Korean IFRS 1039 *Financial Instruments: Recognition and Measurement*. The Company will apply the standards for annual periods beginning on or after January 1, 2018.

The standard requires retrospective application with some exceptions. For example, an entity is not required to restate prior period in relation to classification and measurement (including impairment) of financial instruments. The standard requires prospective application of its hedge accounting requirements for all hedging relationships except the accounting for time value of options and other exceptions.

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Korean IFRS 1109 *Financial Instruments* requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

An effective implementation of Korean IFRS 1109 requires preparation processes including financial impact assessment, accounting policy establishment, accounting system development and the system stabilization. The impact on the Company's financial statements due to the application of the standard is dependent on judgements made in applying the standard, financial instruments held by the Company and macroeconomic variables.

The Company is in the process of analyzing the financial impact of its adoption of Korean IFRS 1109 on its financial statements. The following are the general effects to the financial statements based on the major items of Korean IFRS 1109.

(a) 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. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

<i>Business model for the contractual cash flows characteristics</i>	<i>Solely represent payments of principal and interest</i>	<i>All other</i>
<i>Hold the financial asset for the collection of the contractual cash flows</i>	Measured at amortized cost ¹	
<i>Hold the financial asset for the collection of the contractual cash flows and sale</i>	Recognized at fair value through other comprehensive income ¹	Recognized at fair value through profit or loss ²
<i>Hold for sale</i>	Recognized at fair value through profit or loss	

¹ A designation at fair value through profit or loss is allowed only if such designation mitigates an accounting mismatch (irrevocable).

² Equity investments not held for trading can be recorded in other comprehensive income (irrevocable).

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

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According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

According to Korean IFRS 1109, a debt instrument is measured at fair value through other comprehensive income if the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and the contractual cash flows represents solely payments of principal and interest on a specific date under contract terms.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss.

(b) Classification and Measurement of Financial Liabilities

Korean IFRS 1109 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income, unless this treatment of the credit risk component creates or enlarges a measurement mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result profit or loss from fair value movements may decrease.

(c) Impairment: Financial Assets and Contract Assets

The new impairment model 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. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

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Under Korean IFRS 1109 ‘expected loss’ model, a credit event (or impairment ‘trigger’) no longer has to occur before credit losses are recognized. The Company will always recognize (at a minimum) 12-month expected credit losses in profit or loss. Lifetime expected losses will be recognized on assets for which there is a significant increase in credit risk after initial recognition.

Stage¹		Loss allowance
1	No significant increase in credit risk after initial recognition ²	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)
2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

¹ A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Company can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

² If the financial instrument has low credit risk at the end of the reporting period, the Company may assume that the credit risk has not increased significantly since initial recognition.

Under Korean IFRS 1109, 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 with any changes recognized in profit or loss.

(d) Hedge Accounting

Hedge accounting mechanics (fair value hedges, cash flow hedges and hedge of net investments in a foreign operations) required by Korean IFRS 1039 remains unchanged in Korean IFRS 1109, however, the new hedge accounting rules will align the accounting for hedging instruments more closely with the Company’s risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Korean IFRS 1109 allows more hedging instruments and hedged items to qualify for hedge accounting, and relaxes the hedge accounting requirement by removing two hedge effectiveness tests that are a prospective test to ensure that the hedging relationship is expected to be highly effective and a quantitative retrospective test (within range of 80-125%) to ensure that the hedging relationship has been highly effective throughout the reporting period.

With implementation of Korean IFRS 1109, volatility in profit or loss may be reduced as some items that were not eligible as hedged items or hedging instruments under Korean IFRS 1039 are now eligible under Korean IFRS 1109.

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Furthermore, when the Company first applies Korean IFRS 1109, it may choose as its accounting policy choice to continue to apply all of the hedge accounting requirements of Korean IFRS 1039 instead of the requirements of Korean IFRS 1109.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 will be effective for annual reporting periods beginning on or after January 1, 2018 with early adoption permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers*.

The Company must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will elect the modified retrospective approach which will recognize the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1 2018, the period of initial application.

Korean IFRS 1018 and other current revenue standard identify revenue as income that arises in the course of ordinary activities of an entity and provides guidance on a variety of different types of revenue, such as, sale of goods, rendering of services, interest, dividends, royalties and construction contracts. However, the new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue from contract with customers can be recognized:

- Identify contracts with customers
- Identify the separate performance obligation
- Determine the transaction price of the contract
- Allocate the transaction price to each of the separate performance obligations, and
- Recognize the revenue as each performance obligation is satisfied.

As at December 31, 2017, the Company started to prepare for internal management process and to adjust accounting system in relation to implementation of Korean IFRS 1115. Also, the Company is analyzing the financial effects of applying the new standard.

(a) *Identify performance obligation*

With the implementation of Korean IFRS 1115, the Company identifies performance obligations from a contract with a customer. The timing of revenue recognition depends on a performance obligation is satisfied at a point in time or over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time.

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(b) 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 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.

(c) Incremental costs of obtaining a contract

With implementation of Korean IFRS 1115, the Company recognizes as an asset the incremental costs of obtaining a contract with a customer, when the Company expects to recover those costs. An incremental cost are costs for a contract with a customer, which would not have incurred if the contract has not been obtained. The Company recognizes the incremental costs of obtaining a contract with a customer, which incurred regardless of the conclusion of contract, as an expense, if the Company can not bill the contract to the customer clearly whether the contract is concluded or not.

(d) Variable consideration

With implementation of Korean IFRS 1115, 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.

(e) 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 goods 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.

2.3 Subsidiaries and Associates

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027, *Separate Financial Statements*. Investments in subsidiaries and associates are recognized at cost under the direct equity method. Management applied the carrying amounts under the previous K-GAAP at the time of transition to the Korean IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries and associates in profit or loss when its right to receive the dividend is established.

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2.4 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the separate financial statements are measured using the currency of the primary economic environment in which the each entity operates (the "functional currency"). The separate financial statements are presented in Korean won, which is the Company's functional and presentation currency.

(b) Transactions and balances

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

(a) Classification and measurement

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss within other income or other expenses. Gains or losses arising from changes in the available-for-sale financial assets are recognized in other comprehensive income, and amounts are reclassified to profit or loss when the associated assets are sold or impaired.

(b) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

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Impairment of loans and receivables is presented as a deduction in an allowance account, and that of other financial assets is directly deducted from their carrying amount. The Company writes off financial assets when the assets are determined to be no longer recoverable.

The Company considers that there is an objective evidence of impairment if significant financial difficulties of the debtor, or delinquency in interest or principal payments for more than 3 months is indicated. Moreover, in the case of equity investments classified as available-for-sale, a significant decline in the fair value of the security, or prolonged decline is considered an objective evidence of impairment.

(c) Derecognition

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. The Company classified the financial liability as '(long-term) borrowings' in the statement of financial position (Note 7).

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the separate statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

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 Inventories

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 (or Disposal Group) Held-for-sale

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

2.9 Property, Plant and Equipment

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Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes 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:

	Useful life		Useful life
Buildings	40 years	Vehicles	5 years
Structures	40 years	Tools and equipment	5 years
Machinery	8 - 10 years	Others	4 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted 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 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 are initially recognized at its historical cost and carried at cost less accumulated amortization and accumulated impairment losses.

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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:

	Useful lives
Industrial rights	5 - 10 years
Facility Usage Rights	10 - 25 years
Other intangible assets	5 years

2.13 Investment Property

Investment property is 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 after initial measurement at depreciated cost (less any accumulated impairment losses). 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 not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.15 Financial Liabilities

(a) Classification and measurement

The Company's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and presented as '(long-term) trade and other payables', '(long-term) borrowings', and 'other (non-current) financial liabilities' in the statement of financial position.

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(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished, for example, when the obligation specified in the contract is discharged, cancelled or expired or when the terms of an existing financial liability are substantially modified.

2.16 Financial Guarantee Contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of the amount determined in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization in accordance with Korean IFRS 1018 *Revenue*, and recognized in the statement of financial position within 'trade and other payables'.

2.17 Provisions

Provisions are measured at the present value of management's best 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 on the profit for the year in the statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates tax policies that are applied in tax returns in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of the amount expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on 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 accounted for if it arises from 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 all taxable temporary differences associated with investments in subsidiaries, associates, except to the extent that the Company is able to control the

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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 right to offset and intends either to settle on a net basis.

2.19 Employee Benefits

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

For defined contribution plans, the Company pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Company has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

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, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

2.20 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal course of the business. Amounts disclosed as revenue are net of value added taxes, returns, rebates and discounts and after elimination of inter-company transactions.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimate on historical results, taking into consideration the type of customer, the type of transaction

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and the specifics of each arrangement.

(a) Sale of goods

Sales are recognized when control of the products has transferred, being when the products are delivered to the customer.

(b) Rendering of services

When the outcome of a rendering of services contract can be estimated reliably, revenue is recognized by reference to the stage of completion. When the outcome of a rendering of services contract cannot be estimated reliably, revenue is recognized only to the extent of costs incurred that are likely to be recoverable.

(c) Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

(d) Interest income

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

(e) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.21 Construction Contracts

A construction contract is defined by Korean IFRS 1011 *Construction Contracts*, as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract by reference to the stage of completion. Contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss on the construction contract is immediately recognized as an expense.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. Contract costs are recognized as an expense in the period in which they are incurred.

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The Company uses the 'percentage-of-completion method' to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred during the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. These amounts are recognized as inventory or advance payments.

On the statement of financial position, the Company reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognized profits (less recognized losses) exceed progress billings (due from customers for contract work); a contract represents a liability where the opposite is the case (due to customers for contract work).

Meanwhile, revenue from Housing revenue are recognized by using the percentage-of-completion method according to Q&A of Korea Accounting Institute, 2011-I-KQA. This accounting standard is applicable for Companies that have adopted Korean IFRS of Laws on External Audit of a Corporation (Article 13, Section 1, Paragraph 1)

2.22 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 charge 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 are 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 incidental 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.

2.23 Segment Reporting

Information of each operating segment is reported in a manner consistent with the internal 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.

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2.24 Approval of Issuance of the Financial Statements

The financial statements 2017 were approved for issue by the Board of Directors on February 22, 2018 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make 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.

(a) Income taxes

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. 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 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. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

(b) 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).

(c) Provisions

As at December 31, 2017, the Company recognizes provisions for warranties and others as explained in Note 26. These provisions are estimated based on past experience.

(d) 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).

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(e) Uncertainty of the estimated total contract revenue

Total contract revenue is measured based on contractual amount initially agreed. The contract revenue can be increased by additional contract work, claims and incentive payments in the course of construction, or decreased by the penalty when the completion of contract is delayed due to the Company's fault. Therefore, this measurement of contract revenue is affected by the uncertainty of the occurrence of future events. The change in contract revenue is recognized when it is probable that the customer will approve the increase in revenue due to the changes in contract work, or when it is probable that the Company will be able to satisfy the performance requirements, and the amount can be estimated reliably.

(f) Estimated total contract costs

Construction revenue is recognized according to the percentage of completion, which is measured on the basis of the gross amount incurred to date. Total contract costs are estimated based on future estimates of material costs, labor costs, construction period and others.

4. Financial Risk Management

4.1 Financial Risk Factors

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

(a) 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.

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The table below summarizes the impact of weakened/strengthened Korean won on the Company's pre-tax profit for the period. The analysis is based on the assumption that Korean won has weakened/strengthened by 10% with all other variables held constant.

<i>(in millions of Korean won)</i>		Impact on pre-tax profit			
		2017		2016	
USD	Strengthened	₩	(49,025)	₩	(40,074)
	Weakened		49,025		40,074
EUR	Strengthened		627		(2,202)
	Weakened		(627)		2,202
JPY	Strengthened		(5,725)		(7,836)
	Weakened		5,725		7,836
Others	Strengthened		4,087		2,050
	Weakened		(4,087)		(2,050)

(b) Price risk

The Company is exposed to equity securities price risk arises from investments held by the Company that are classified as available-for-sale in the 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. The analysis is based on the assumption that the stock price has increased/decreased by 30% with all other variables held constant.

<i>(in millions of Korean won)</i>		Impact on equity			
		2017		2016	
Increase		₩	39,597	₩	44,237
Decrease			(39,597)		(44,237)

(c) Interest rate 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.

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The table below summarizes the impact of increases/decreases of interest rate on the Company's pre-tax profit for the period. The analysis is based on the assumption that the interest rate has increased/decreased by 100 basis points with all other variables held constant.

<i>(in millions of Korean won)</i>	Impact on pre-tax profit			
	2017		2016	
Increase	₩	(5,905)	₩	(6,657)
Decrease		5,905		6,657

4.1.2 Credit Risk

Credit risk is managed on the Company basis. 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, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The compliance with credit limits is regularly monitored by line management. See Note 11 for more information about credit risk.

The maximum exposure to credit risk as at December 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Cash and cash equivalents ¹	₩	46,152	₩	39,930
Trade and other receivables		963,038		807,132
Due from customers for contract work		139,977		113,857
Other financial assets		18,513		6,964
Long-term trade and other receivables		328,125		285,456
Other non-current financial assets		242,214		246,585

¹ The rest of 'cash and cash equivalents' in the statement of financial position represents cash on hand.

The maximum exposure to credit risk related to guarantees provided to the subsidiaries and associates, except above, is equal to the maximum guarantee amounts (Note 40).

4.1.3 Liquidity Risk

The Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. The Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios.

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Details of the Company's liquidity risk analysis as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017			
	Less than 1 year	Between 1 and 5 years	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>

(in millions of Korean won)

	2016			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Trade and other payables	₩ 1,167,986	₩ 46,868	₩ 15,835	₩ 1,230,689
Borrowings (including interest expense)	1,295,649	1,102,559	18,717	2,416,925
Derivative financial instruments ¹	36,001	-	-	36,001
	<u>₩ 2,499,636</u>	<u>₩ 1,149,427</u>	<u>₩ 34,552</u>	<u>₩ 3,683,615</u>

¹ The Company's trading portfolio derivative instruments have been included at their fair value of ₩ 3,782 million (2016: ₩ 36,001 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 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 40).

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

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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 amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors 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' as shown in the separate statement of financial position plus net debt.

The gearing ratios at December 31, 2017 and 2016 are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Total borrowings	₩	2,129,823	₩	2,318,105
Less: cash and cash equivalents		(46,622)		(40,667)
Net debt (A)		2,083,201		2,277,438
Total equity (B)		3,473,711		3,417,216
Total capital (A+B=C)	₩	5,556,912	₩	5,694,654
Gearing ratio (A/C)		37.49%		39.99%

5. Fair Value

5.1 Fair Value of Financial Instruments by Category

Carrying amounts of financial instruments, excluding available-for-sale financial assets that are measured at cost because their fair value cannot be measured reliably (Note 5.2), are similar to their fair values.

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5.2 Financial Instruments Measured at Cost

Details of financial instruments measured at cost as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Available-for-sale financial assets				
Oksan Ochang Highway Corporation	₩	14,970	₩	14,970
TransLink Capital Partners 1, L.P.		1,364		1,364
The Korea Economic Daily		1,354		1,354
Kumho Holdings Co. Ltd		10,000		10,000
Hyosung Creative Economy Fund		10,000		10,000
Acuon Capital Co. Ltd		537		537
AXIA Materials Co. Ltd		1,053		1,053
Construction Guarantee Cooperative		4,373		3,319
Machinery Financial Cooperative		3,504		3,300
Carbon growth fund		3,000		1,500
Government bonds		1,110		688
Leo 9 Hyosung Youth Enterprise Establishment Fund		6,000		-
Investment and others		2,304		1,904
	₩	59,569	₩	49,989

The above equity instruments are measured at cost because they do not have quoted prices in an active market and their fair value cannot be measured reliably. The Company has no intention to dispose of the aforementioned financial instruments in the near future. These equities will be measured at fair value when the Company can develop a reliable estimate of the fair value.

5.3 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:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

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Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017			
	Level 1	Level 2	Level 3	Total
Assets				
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>
Liabilities				
Derivative financial liabilities	₩ -	₩ 3,782	₩ -	₩ 3,782
	<u>₩ -</u>	<u>₩ 3,782</u>	<u>₩ -</u>	<u>₩ 3,782</u>

(in millions of Korean won)

	2016			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets	₩ 194,532	₩ -	₩ -	₩ 194,532
Derivative financial assets	-	5,126	-	5,126
	<u>₩ 194,532</u>	<u>₩ 5,126</u>	<u>₩ -</u>	<u>₩ 199,658</u>
Liabilities				
Derivative financial liabilities	₩ -	₩ 36,001	₩ -	₩ 36,001
	<u>₩ -</u>	<u>₩ 36,001</u>	<u>₩ -</u>	<u>₩ 36,001</u>

5.4 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 for the year ended December 31, 2017 and 2016.

5.5 Valuation Techniques and the Inputs

Valuation techniques and inputs used in levels 2 and 3 fair value measurements are as follows:

(in millions of Korean won)

				2017		
				Valuation techniques	Range of inputs	
Derivatives						
Currency forward exchange contracts, Currency Swap	₩	(Asset) 19,577 (Liability) 3,782	2	Market Approach	Exchange rate	N/A
Embedded Derivatives of Redeemable Convertible Preference Shares		(Asset) 3,476	3	Option pricing model	Discount rate Volatility of underlying asset	N/A

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6. Segment Information

6.1 Operating Segment Information

The management which makes strategic decisions has determined the operating segments. The management makes strategic decisions on allocation of resources to segments and assesses the performance of operating segments based on the operating profit. The management categorizes the product into fabric, industrial materials, chemicals, heavy industrial, construction, trading and others.

The Company's operating segment information for the years ended and as at December 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	2017							Total
	Fabric	Industrial materials	Chemicals	Heavy industrial	Construction	Trading	Others	
Revenue								
Total segment revenue	₩ 1,371,942	₩ 1,083,352	₩ 1,681,506	₩ 1,956,604	₩ 1,130,753	₩ 1,933,923	₩ 26,128	₩ 9,184,207
Intersegment revenue	(390,916)	(947)	(243,805)	(19,337)	-	(19,253)	-	(674,257)
Revenue from external customers	₩ 981,026	₩ 1,082,405	₩ 1,437,701	₩ 1,937,267	₩ 1,130,753	₩ 1,914,670	₩ 26,128	₩ 8,509,950
Operating profit	₩ 106,063	₩ 46,754	₩ 104,010	₩ 56,138	₩ 107,099	₩ 759	₩ (5,398)	₩ 415,425
Depreciation and amortization	28,464	38,736	162,836	29,803	270	1,700	26,446	288,255
Assets								
Current assets	222,312	188,754	232,899	808,605	199,262	176,565	104,957	1,933,354
Non-current assets	217,734	837,435	1,142,310	823,382	92,034	66,258	2,731,776	5,910,929
Investment in subsidiaries and associates	585,311	228,238	15,586	102,449	51,772	65,697	472,051	1,521,104
Additions to non-current assets ¹	20,628	33,309	100,612	14,674	771	866	223,578	394,438
Liabilities								
Current liabilities	199,466	158,386	273,001	574,265	311,003	293,045	1,301,957	3,111,123
Non-current liabilities	12,339	30,236	32,164	155,096	55,203	6,614	967,797	1,259,449

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<i>(in millions of Korean won)</i>	2016							
	Fabric	Industrial materials	Chemicals	Heavy industrial	Construction	Trading	Others	Total
Revenue								
Total segment revenue	₩ 1,284,984	₩ 1,064,648	₩ 1,356,595	₩ 2,174,648	₩ 847,494	₩ 1,818,566	₩ 20,312	₩ 8,567,247
Intersegment revenue	(339,375)	(709)	(219,940)	(21,304)	-	(11,578)	-	(592,906)
Revenue from external customers	₩ 945,609	₩ 1,063,939	₩ 1,136,655	₩ 2,153,344	₩ 847,494	₩ 1,806,988	₩ 20,312	₩ 7,974,341
Operating profit	₩ 148,890	₩ 89,300	₩ 130,518	₩ 179,441	₩ 78,242	₩ 2,129	₩ 4,673	₩ 633,193
Depreciation and amortization	27,784	39,446	137,090	30,712	268	1,740	24,456	261,496
Assets								
Current assets	212,036	163,509	166,768	706,628	264,021	96,185	42,019	1,651,166
Non-current assets	225,941	893,371	1,261,067	943,895	245,299	64,744	2,394,786	6,029,103
Investment in subsidiaries and associates	495,827	349,824	21,766	127,194	51,772	65,605	472,681	1,584,669
Additions to non-current assets ¹	15,029	67,096	159,256	21,021	17,840	375	24,413	305,030
Liabilities								
Current liabilities	200,556	147,177	204,084	589,310	253,845	145,616	1,343,669	2,884,257
Non-current liabilities	11,164	26,250	28,408	101,237	35,374	6,061	1,170,302	1,378,796

¹ Financial instruments, deferred tax assets and net defined benefit assets are excluded from 'additions to non-current assets'.

6.2 Regional Information

Details of sales by region for the period ended December 31, 2017 and 2016 are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Region		
Republic of Korea	₩ 3,816,803	₩ 3,270,618
North and Central America	541,024	534,452
Asia	2,883,270	3,055,693
Europe	1,072,086	890,691
Others	196,767	222,887
	₩ 8,509,950	₩ 7,974,341

6.3 Information on key customers

There is no customer who contribute more than 10% of the Company revenue for the years ended December 31, 2017 and 2016.

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7. Transfer of Financial Assets

Under factoring arrangement, the Company sells trade receivables at a discount to the financial institutions for the years ended December 31, 2017 and 2016. 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 40).

Details of transferred financial assets that are not derecognized in their entirety as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Loans and receivables				
Carrying amount of assets	₩	231,665	₩	174,312
Carrying amount of the associated liabilities		(249,445)		(174,312)
Net position		(17,780)		-

8. Financial Instruments by Category

8.1 Carrying Amounts of Financial Instruments by Category

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

<i>(in millions of Korean won)</i>	2017			
	Loans and receivables	Available-for-sale financial assets	Derivative financial assets	Total
Assets				
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

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(in millions of Korean won)

	2017						
	Financial liabilities at amortized cost		Other financial liabilities		Derivative financial liabilities		Total
Liabilities							
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

Carrying amounts of financial assets and liabilities by category as at December 31, 2016, are as follows:

(in millions of Korean won)

	2016						
	Loans and receivables		Available-for-sale financial assets		Derivative financial assets		Total
Assets							
Cash and cash equivalents	₩	40,667	₩	-	₩	-	₩ 40,667
Trade and other receivables		807,132		-		-	807,132
Other financial assets		2,304		-		4,660	6,964
Long-term trade and other receivables		285,456		-		-	285,456
Other non-current financial assets		1,598		244,521		466	246,585
	₩	1,137,157	₩	244,521	₩	5,126	₩ 1,386,804

(in millions of Korean won)

	2016						
	Financial liabilities at amortized cost		Other financial liabilities		Derivative financial liabilities		Total
Liabilities							
Trade and other payables	₩	1,165,766	₩	5,092	₩	-	₩ 1,170,858
Borrowings		1,074,584		174,312		-	1,248,896
Other financial liabilities		-		-		29,534	29,534
Long-term trade and other payables		57,992		-		-	57,992
Long-term borrowings		1,069,208		-		-	1,069,208
Other non-current financial liabilities		-		-		6,467	6,467
	₩	3,367,550	₩	179,404	₩	36,001	₩ 3,582,955

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8.2 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, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Loans and receivables		
Gain (loss) on disposal (profit or loss)	₩ (1,166)	₩ (1,545)
Interest income	3,835	4,236
Bad debt expense	(10,843)	(16,002)
Other bad debt expense	(80,847)	(25,372)
Gain on foreign currency translation	21,931	40,775
Loss on foreign currency translation	(62,565)	(44,140)
Available-for-sale financial assets		
Gain (loss) on valuation (other comprehensive income)	(31,286)	11,803
Gain (loss) on disposal (profit or loss)	321	13,311
Gain (loss) on disposal (reclassify to profit or loss) ¹	(233)	(4,131)
Impairment (profit or loss)	(17,052)	(1,492)
Interest income	95	5
Dividend income	333	102
Financial liabilities measured at amortized cost		
Interest expense	(73,235)	(82,820)
Gain on foreign currency translation	94,172	75,631
Loss on foreign currency translation	(29,549)	(67,861)
Other financial liabilities ²		
Interest expense	(3,571)	(4,525)
Gain on foreign currency translation	3,640	-
Loss on foreign currency translation	(1)	(5,397)
Derivative financial assets and liabilities		
Gain (loss) on derivative transactions (profit or loss)	28,642	11,652
Gain (loss) on valuation of derivatives (profit or loss)	25,279	(15,993)

¹ The amount reclassified from other comprehensive income to profit or loss.

² Other financial liabilities are financial liabilities that are not subject to the categorizations such as financial liabilities related to transfer transactions not qualified for derecognition, financial payment guarantees and others.

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9. Cash and Cash Equivalents

Cash and cash equivalents as at December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017		2016	
Cash on hand	₩	470	₩	737
Bank deposits		46,152		39,930
	₩	<u>46,622</u>	₩	<u>40,667</u>

10. Restricted Financial Instruments

Restricted financial instruments as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016		Details
Cash and cash equivalents	₩	410	₩	410	Escrow account related to disposal of assets, etc.
Other non-current financial assets		1,439		1,598	Restricted for lease deposits received

11. Trade and Other Receivables

Details of trade and other receivables as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017					
	Receivable amount		Provisions for impairment		Book 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
	₩	<u>1,452,657</u>	₩	<u>(161,494)</u>	₩	<u>1,291,163</u>

<i>(in millions of Korean won)</i>	2016					
	Receivable amount		Provisions for impairment		Book amount	
Trade receivables	₩	752,272	₩	(23,895)	₩	728,377
Other receivables		86,519		(7,765)		78,754
Long-term trade receivables		24,484		(10,723)		13,761
Long-term other receivables		338,993		(67,298)		271,695
	₩	<u>1,202,268</u>	₩	<u>(109,681)</u>	₩	<u>1,092,587</u>

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The Company has transferred trade receivables amounting to ₩ 249,445 million (2016: ₩ 174,312 million) to a bank in exchange for cash for the year ended December 31, 2017. 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 (Note 7, 23 and 40).

Details of other receivables as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Other receivables				
Non-trade receivables	₩	77,972	₩	54,880
Short-term loans		12,694		16,876
Accrued income		8,201		6,998
		<u>98,867</u>		<u>78,754</u>
Long-term other receivables				
Long-term loans		138,857		77,150
Deposits provided		174,511		194,545
		<u>313,368</u>		<u>271,695</u>
	₩	<u>412,235</u>	₩	<u>350,449</u>

The fair value of long-term trade and other receivables is calculated by discounting nominal value of expected future cash inflows at a discount rate which reflects credit risk.

	2017	2016
Discount rate	1.60%~7.10%	1.80%~5.00%

The aging analysis of trade and other receivables as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>		2017					
		Past due but not impaired				Impaired	Total
Receivables not past due		Up to 3 months	4 to 6 months	7 to 12 months	Over 12 months		
Trade receivables	₩ 628,060	₩ 119,416	₩ 37,115	₩ 35,439	₩ 40,933	₩ 25,184	₩ 886,157
Other receivables	98,674	-	-	-	-	3,194	101,868
Long-term trade receivables	4,035	-	-	-	-	21,446	25,438
Long-term other receivables	234,845	-	-	-	-	204,306	439,151
	<u>₩ 965,614</u>	<u>₩ 119,416</u>	<u>₩ 37,115</u>	<u>₩ 35,439</u>	<u>₩ 40,933</u>	<u>₩ 254,130</u>	<u>₩1,452,657</u>

<i>(in millions of Korean won)</i>		2016					
		Past due but not impaired				Impaired	Total
Receivables not past due		Up to 3 months	4 to 6 months	7 to 12 months	Over 12 months		
Trade receivables	₩ 412,844	₩ 109,363	₩ 19,696	₩ 21,569	₩ 151,543	₩ 37,257	₩ 752,272
Other receivables	71,115	-	-	-	-	15,404	86,519
Long-term trade receivables	3,297	-	-	-	-	21,446	24,743
Long-term other receivables	263,887	-	-	-	-	77,373	341,260
	<u>₩ 751,143</u>	<u>₩ 109,363</u>	<u>₩ 19,696</u>	<u>₩ 21,569</u>	<u>₩ 151,543</u>	<u>₩ 151,480</u>	<u>₩1,204,794</u>

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

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, it collectively assesses them for impairment.

The credit quality of trade receivables and long-term trade receivables that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

<i>(in millions of Korean won)</i>	2017		2016	
Counterparties with external credit rating				
A	₩	275,827	₩	145,440
BB		389,898		302,387
BBB		45,285		66,853
		<u>711,010</u>		<u>514,680</u>
Counterparties without external credit rating				
Group 1 ¹		15,287		12,744
Group 2 ²		138,562		187,692
Group 3 ³		149		3,196
		<u>153,998</u>		<u>203,632</u>
	₩	<u>865,008</u>	₩	<u>718,312</u>

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

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

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

Movements on the provisions for impairment of receivables for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017			
	Beginning balance	Provisions for impaired receivables	Receivables written off as uncollectible	Ending balance
Trade receivables	₩ 23,895	₩ 10,843	₩ (12,752)	₩ 21,986
Other receivables	7,765	2,724	(7,487)	3,002
Long-term trade receivables	10,723	-	-	10,723
Long-term other receivables	67,298	78,123	(19,638)	125,783
	<u>₩ 109,681</u>	<u>₩ 91,690</u>	<u>₩ (39,877)</u>	<u>₩ 161,494</u>

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	2016			
	Beginning balance	Provisions for impaired receivables	Receivables written off as uncollectible	Ending balance
Trade receivables	₩ 25,206	₩ 16,002	₩ (17,313)	₩ 23,895
Other receivables	864	7,017	(116)	7,765
Long-term trade receivables	10,723	-	-	10,723
Long-term other receivables	48,943	18,355	-	67,298
	<u>₩ 85,736</u>	<u>₩ 41,374</u>	<u>₩ (17,429)</u>	<u>₩ 109,681</u>

Provision for impaired trade receivables and unused amounts reversed have been included in the statement of profit or loss within 'selling and administrative expenses' (Note 34). Provision for impaired other receivables and unused amounts reversed have been included in the statement of profit or loss within 'other income and expenses' (Note 35). Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash.

12. Other Financial Assets and Liabilities

Other financial assets and liabilities as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017	2016
Other financial assets		
Loans and receivables	₩ 3,974	₩ 3,902
Available-for-sale financial assets	233,700	244,521
Derivative financial assets	23,053	5,126
	<u>260,727</u>	<u>253,549</u>
Less: current portion	(18,513)	(6,964)
	<u>₩ 242,214</u>	<u>₩ 246,585</u>
Other financial liabilities		
Derivative financial liabilities	₩ 3,782	₩ 36,001
Less: current portion	(3,198)	(29,534)
	<u>₩ 584</u>	<u>₩ 6,467</u>

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Details of loans and receivables as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Short-term financial instruments	₩	209	₩	2,304
Long-term financial instruments		3,765		1,598
	₩	<u>3,974</u>	₩	<u>3,902</u>

Available-for-sale financial assets as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Equity securities				
Listed	₩	174,131	₩	194,532
Non-listed		31,181		30,784
Investments		27,278		18,517
Debt securities				
Government bonds		1,110		688
	₩	<u>233,700</u>	₩	<u>244,521</u>

Companies in which the Company has more than 20% of voting rights but are not significantly influenced by the Company as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>			2017		2016	
	Equity securities	Percentage of ownership (%)	Cost	Book amount	Book amount	
Chin Hung International Inc. ¹	Listed	48.17	₩ 181,893	₩ 135,141	₩	155,320
OKSAN OCHANG Highway Corporation ²	Non-listed	30.00	14,970	14,970		14,970
			₩ 196,863	₩ 150,111	₩	<u>170,290</u>

¹ The shares have been provided as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. (Note 40). Also, although the Company holds more than 20% of total interest, the Company does not have 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 are classified as available-for-sale financial assets accordingly.

² Although the Company owns 30% ownership in OKSAN OCHANG Highway Corporation, considered that the Company does not have significant influence over the entity since the decision for financial and operating policy is under the government's control. Therefore, the investment was classified as available-for-sale financial assets.

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Changes in available-for-sale financial assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning balance	₩	244,521	₩	264,660
Acquisitions ¹		71,873		8,539
Disposals		(504)		(34,858)
Impairment loss on available-for-sale financial assets		(17,052)		(1,492)
Net gains (losses) reclassified to equity		(31,286)		11,803
Net gains (losses) reclassified from equity		(224)		(4,131)
Increase due to merger		1,341		-
Decrease due to merger		(34,969)		-
Ending balance	₩	<u>233,700</u>	₩	<u>244,521</u>
Current portion		-		-
Non-current portion		233,700		244,521

¹ During the year, the company acquired ₩ 71,873 million of available-for-sale financial assets, such as stocks of Chin Hung International Inc. (₩ 28,400 million) and convertible instruments of Hyosung Engineering Co., Ltd. (₩ 34,979 million). In addition, the acquisition amount includes some of the equity conversion.

Changes in unrealized gain or loss on valuation of available-for-sale financial assets presented as accumulated other comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning balance	₩	40,552	₩	34,736
Gain (loss) on valuation		(31,285)		11,803
Reclassification to profit or loss		(223)		(4,131)
Income tax effects related to components of other comprehensive income		7,625		(1,856)
Ending balance	₩	<u>16,669</u>	₩	<u>40,552</u>

The Company entered into currency forward exchange contracts, currency swaps, instruments forward contracts and a total return swap to hedge the foreign exchange risks and other risks arising from trade receivable denominated in foreign currency and others. The related gain (loss) on valuation of derivatives is recognized as profit or loss in the separate statement of income.

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Details of derivative financial assets and liabilities as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Current				
Currency forward exchange contracts	₩ 18,246	₩ 3,198	₩ 3,627	₩ 23,140
Instruments forward contracts	-	-	890	6,363
Currency Swap	59	-	143	-
Total return Swap ¹	-	-	-	31
	<u>18,305</u>	<u>3,198</u>	<u>4,660</u>	<u>29,534</u>
Non-current				
Currency forward exchange contracts	1,272	-	466	6,467
Currency Swap	-	584	-	-
Embedded derivatives (Redeemable Convertible Preference Shares)	3,476	-	-	-
	<u>4,748</u>	<u>584</u>	<u>466</u>	<u>6,467</u>
Total	<u>₩ 23,053</u>	<u>₩ 3,782</u>	<u>₩ 5,126</u>	<u>₩ 36,001</u>

¹ The Company entered into a total return swap to settle the difference between the fair value after three years from the issuance date of convertible bonds (October, 2014, amounting to ₩ 35 billion of nominal amount) issued by Hyosung Engineering Co., Ltd., which is a subsidiary of the Company, and the rate of return (6.7%) on the convertible bonds with SY HS 1st co., Ltd., which is the underwriter of the convertible bonds. As the Company acquired the convertible bonds during the year, the total revenue swap agreement was terminated.

13. Other Assets

Details of other assets as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Other current assets		
Advance payments	₩ 102,745	₩ 74,816
Provisions	(290)	(290)
Prepaid expenses	20,006	19,363
	<u>122,461</u>	<u>93,889</u>
Other non-current assets		
Other investments	23,922	23,895
Long-term prepaid expenses	4,308	5,586
	<u>28,230</u>	<u>29,481</u>
	<u>₩ 150,691</u>	<u>₩ 123,370</u>

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14. Inventories

Details of inventories as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017		
	Cost	Provision	Book amount
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
Packaging	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
Sites	4,920	(2,101)	2,819
	<u>₩ 684,753</u>	<u>₩ (42,010)</u>	<u>₩ 642,743</u>

(in millions of Korean won)

	2016		
	Cost	Provision	Book amount
Merchandise	₩ 33,896	₩ -	₩ 33,896
Finished goods	230,391	(11,214)	219,177
Semi-finished goods	102,761	(1,507)	101,254
Work in process	45,661	-	45,661
Raw materials	117,955	(1,607)	116,348
Sub-materials	13,339	-	13,339
Supplies	3,305	-	3,305
Packaging	1,715	-	1,715
Goods in transit	29,696	-	29,696
Cost accrued on construction contracts	6,532	-	6,532
Temporary installations	65	-	65
Sites	25,945	(8,276)	17,669
	<u>₩ 611,261</u>	<u>₩ (22,604)</u>	<u>₩ 588,657</u>

Inventories recognized as an expense during the year ended December 31, 2017 amounted to ₩ 5,257,136 million (2016: ₩ 4,491,182 million). There were included in 'cost of sales'. Also, the Company recognized provisions for inventories amounting to ₩ 19,406 million (2016: reversal of provisions for inventories amounting to ₩ 10,819 million) as expense during the year ended December 31, 2017 which is included in the statement of profit or loss within 'cost of sales'.

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15. Property, Plant and Equipment

Details of property, plant and equipment as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		
	Cost	Accumulated depreciation¹	Book 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>
<i>(in millions of Korean won)</i>	2016		
	Cost	Accumulated depreciation¹	Book amount
Land	₩ 1,414,821	₩ -	₩ 1,414,821
Building	769,500	(260,327)	509,173
Structures	236,251	(64,139)	172,112
Machinery	3,512,908	(2,525,481)	987,427
Vehicles	27,951	(23,858)	4,093
Tool and equipment	276,689	(219,626)	57,063
Others	12,548	(2,153)	10,395
Construction in progress	174,196	-	174,196
Machinery in transit	768	-	768
	<u>₩ 6,425,632</u>	<u>₩ (3,095,584)</u>	<u>₩ 3,330,048</u>

¹ Accumulated impairment losses are included.

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Changes in property, plant and equipment for the years ended December 31, 2017 and 2016, are as follows:

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

(in millions of Korean won)	2016									
	Land	Buildings	Structures	Machinery	Vehicles	Tools and equipment	Others	Construction in progress	Machinery in transit	Total
Beginning balance	₩ 1,402,064	₩ 513,958	₩ 155,509	₩ 993,150	₩ 4,004	₩ 58,539	₩ 12,001	₩ 228,690	₩ 834	₩ 3,368,749
Additions	12,757	954	289	10,664	886	3,421	2,457	137,683	78,132	247,243
Disposals	-	(680)	(10)	(6,764)	(184)	(5)	(1,224)	-	-	(8,867)
Depreciation and others ¹	-	(18,813)	(5,559)	(198,850)	(1,694)	(22,517)	(2,839)	-	-	(250,272)
Impairment loss ³	-	(8,392)	(749)	(16,412)	(6)	(425)	-	-	-	(25,984)
Transfers ⁴	-	22,217	22,632	206,467	1,087	18,420	-	(192,177)	(78,198)	448
Government grants received	-	(71)	-	(828)	-	(370)	-	-	-	(1,269)
Ending balance	₩ 1,414,821	₩ 509,173	₩ 172,112	₩ 987,427	₩ 4,093	₩ 57,063	₩ 10,395	₩ 174,196	₩ 768	₩ 3,330,048

¹ Depreciation includes ₩ 796 million (2016: ₩ 1,105 million) of shrinkage loss from others and ₩ 947 million (2016: ₩ 1,735 million) of supplies expense.

² The Company has tested separate cash-generating units (hereafter 'CGU') for impairment as accumulation of operating losses has been experienced, accordingly, recoverable amounts of CGUs were evaluated. The net book amount of the tangible assets were verified to exceed 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 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 Due to the accumulated operating loss in the Optical Film segment, a separate cash-generating unit in the operating segment of chemicals, the Company recognized impairment loss, amounting to ₩ 23,798 million, as other expenses.

⁴ Transfers include transfer of construction in progress, transfer of machinery-in-transit, transfer from or to non-current assets held-for-sale, and transfer from or to intangible assets.

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Line items including depreciation in the separate statements of profit or loss for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Cost of sales	₩	256,211	₩	226,554
Selling and administrative expenses		8,316		8,751
Research and development expenses		11,084		12,127
	₩	<u>275,611</u>	₩	<u>247,432</u>

During the year, the Company has capitalized borrowing costs amounting to ₩ 301 million (2016: ₩ 1,824 million) on property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 3.12% (2016: 3.13%).

Certain amounts of the property, plant and equipment are provided as collaterals to financial institutions for borrowings (Note 40).

16. Investment Properties

Details of investment properties as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		
	Cost	Accumulated depreciation¹	Book 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>

<i>(in millions of Korean won)</i>	2016		
	Cost	Accumulated depreciation¹	Book amount
Land	₩ 338,469	₩ (3,485)	₩ 334,984
Building	187,599	(53,811)	133,788
	<u>₩ 526,068</u>	<u>₩ (57,296)</u>	<u>₩ 468,772</u>

¹ Accumulated impairment losses are included.

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Changes in investment properties for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017		
	Land	Buildings	Total
Beginning balance	₩ 334,984	₩ 133,788	₩ 468,772
Acquisition	-	780	780
Disposals	(33,384)	(31,864)	(65,248)
Depreciation	-	(3,715)	(3,715)
Transfers, etc.	26,422	26	26,448
Ending balance	<u>₩ 328,022</u>	<u>₩ 99,015</u>	<u>₩ 427,037</u>

(in millions of Korean won)

	2016		
	Land	Buildings	Total
Beginning balance	₩ 320,130	₩ 139,935	₩ 460,065
Acquisition	3,365	960	4,325
Disposals	(4,209)	(2,407)	(6,616)
Depreciation	-	(4,700)	(4,700)
Transfers, etc.	15,698	-	15,698
Ending balance	<u>₩ 334,984</u>	<u>₩ 133,788</u>	<u>₩ 468,772</u>

During the year, rental income from investment property is ₩ 40,686 million (2016: ₩ 42,038 million), and operating expenses (including depreciation) from investment properties that generated rental income are ₩ 27,643 million (2016: ₩ 29,652million).

Fair value of investment properties as at December 31, 2017, is ₩ 572,090 million (2016: ₩ 617,439 million) and the fair value is estimated based on the value determined by the Korean government, which is announced for property tax assessment purposes, etc.

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17. Intangible Assets

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017			
	Industrial property	Others ¹	Membership rights	Total
Beginning balance	₩ 6,024	₩ 18,544	₩ 59,523	₩ 84,091
Additions	934	3,611	-	4,545
Disposal	-	-	(1,248)	(1,248)
Effects of the merger	36	-	(52,735)	(52,699)
Amortization	(1,424)	(7,539)	-	(8,963)
Impairment	(72)	-	(141)	(213)
Transfers, etc. ²	1,605	(2,688)	-	(1,083)
Ending balance	₩ 7,103	₩ 11,928	₩ 5,399	₩ 24,430
<i>(in millions of Korean won)</i>	2016			
	Industrial property	Others ¹	Membership rights	Total
Beginning balance	₩ 6,504	₩ 23,222	₩ 64,064	₩ 93,790
Additions	891	3,763	194	4,848
Disposal	-	-	(4,735)	(4,735)
Amortization	(1,371)	(7,993)	-	(9,364)
Transfers, etc. ²	-	(448)	-	(448)
Ending balance	₩ 6,024	₩ 18,544	₩ 59,523	₩ 84,091

¹ Facility usage rights etc. are included.

² Transfers include transfer from or to intangible assets, etc.

Amortization of ₩ 251 million (2016: ₩ 269 million) is included in 'cost of sales', ₩ 400 million (2016: ₩ 255 million) in 'research and development expenses', and ₩ 8,312 million (2016: ₩ 8,840 million) in the 'selling and administrative expenses'.

18. Insurance Coverage

As at December 31, 2017, certain inventories, property, plant and equipment are insured and details of insurance are as follows:

<i>(in millions of Korean won)</i>	Insured assets	Book amount	Insured amount	Insurance company
Package insurance	Property, Plant and Equipment, etc.	₩ 2,394,798	₩ 7,038,732	Samsung Fire and Marine Insurance Co. and others.

19. Government Grants

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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.

As at December 31, 2017, the balance of government grants related to asset acquisition is ₩ 12,776 million (2016: ₩ 14,774 million), and the balance of government grants related to liabilities to be repaid is ₩ 18,387 million (2016: ₩ 19,718 million).

20. Investment in Subsidiaries and Associates

Changes in investment in subsidiaries and associates for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning balance	₩	1,584,669	₩	1,585,531
Acquisition		883		32,759
Disposal		-		(4,409)
Impairment loss ¹		(64,449)		(29,212)
Ending balance	₩	<u>1,521,103</u>	₩	<u>1,584,669</u>

¹ Reversal of impairment loss is included.

Details of investments in subsidiaries as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	Location	Percentage of ownership (%)	Book amount	
			2017	2016
Galaxia Photonics Co., Ltd. ¹	Korea	-	₩ -	-
Gongdeok Gyeongwoo Development Corporation ^{2,3}	Korea	73.33	974	974
Nautilus Hyosung Inc.	Korea	54.02	75,178	75,178
Doomi Construction Co., Ltd. ³	Korea	-	-	-
Somesevit Corporation ⁴	Korea	57.83	-	-
Taeansolarfarm Corp.	Korea	100	1,880	1,880
HanaLandchip Private Real Estate Investment Trust No.39	Korea	50	16,000	16,000
Hyosung Goodsprings, Inc.	Korea	100	74,361	74,361
Hyosung Engineering Co., Ltd. ³	Korea	-	-	-
Hyosung Capital Co., Ltd.	Korea	97.15	361,762	361,762
Hyosung Investment & Development Corporation	Korea	58.75	34,798	34,798
Hyosung Trans World Co., Ltd.	Korea	100	4,698	4,698
Baoding Hyosung Tianwei Transformer Co., Ltd.	China	80	-	-
Lloyd Dynamowerke GmbH	Germany	100	-	-
GST Global GmbH	Germany	100	160,226	160,226
Hyosung (H.K) LIMITED	China	100	557	557
Hyosung (Taiwan) Corporation	Taiwan	100	226	226
Hyosung Brasil Industria e Comercio de Fibras Ltda.	Brazil	100	33,322	33,322
Hyosung Brasil industrial & commercial LTDA	Brazil	100	5,451	5,451

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Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	China	100	156,059	156,059
Hyosung Chemicals (Jiaxing) Co., Ltd.	China	100	4,848	4,848
Hyosung Corporation India Private Limited	India	100	461	461
Hyosung Europe SRL	Italy	100	3,704	3,704
Hyosung Holdings USA	USA	100	89,589	89,589
Hyosung International Trade(Jiaxing) Co., Ltd.	China	100	1,295	1,295
Hyosung Istanbul TEKSTIL LTD.STI	Turkey	76.66	12,621	12,621
Hyosung Japan Co., Ltd.	Japan	100	6,899	6,899
Hyosung Luxembourg S.A	Luxembourg	100	19,976	18,535
Hyosung Resource (Australia) PTY Ltd.	Australia	100	14,475	14,383
Hyosung RUS.	Russia	100	1,692	1,692
Hyosung Singapore PTE Ltd.	Singapore	100	17	17
Hyosung Spandex (GuangDong) Co., Ltd.	China	100	102,594	102,594
Hyosung Spandex (Jiaxing) Co., Ltd.	China	100	117,289	117,289
Hyosung Spandex (Zhuhai) Co., Ltd.	China	75	24,644	24,644
Hyosung SRL	Romania	100	1	1
Hyosung Steel Cord (Qingdao) Co., Ltd.	China	100	16,668	70,647
Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.	China	100	10,772	10,772
Hyosung Vietnam Co., Ltd.	Vietnam	88.21	49,192	49,192
Hyosung Wire Luxembourg S.A ⁵	Luxembourg	-	-	-
PT.HYOSUNG JAKARTA	Indonesia	99.9	1,268	1,268
Zhangjiagang Xiaosha Coil Service Co., Ltd.	China	64.5	10,404	10,404
Nantong Hyosung Transformer Co., Ltd.	China	100	2,179	6,988
Hyosung South Africa(PTY) LTD	SouthAfrica	50	-	-
Forza Motors Korea Corp.	Korea	100	20,001	20,001
Hyosung T&D India Private Ltd.	India	100	11,685	11,685
Pohang New&Renewable Energy Co.,Ltd.	Korea	100	500	-
			<u>₩ 1,448,266</u>	<u>₩ 1,505,021</u>

¹ It was liquidated during the period.

² Equity shares of Gongdeok Gyeongwoo Development Corporation are pledged as security to financial institutions for the borrowings of Gongdeok Gyeongwoo Development Corporation (Note 21 and 40).

³ During the period, the Company merged with Doomi Construction Co., Ltd. and Hyosung Engineering Co., Ltd. (Note 41).

⁴ Equity shares of Somesevit Corporation are pledged as security to financial institutions for the borrowings of Somesevit Corporation (Note 21 and 40).

⁵ During the Period, Hyosung Wire Luxembourg SA was merged into Hyosung Luxembourg S.A.

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Details of investments in associates as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	Location	Percentage of ownership (%)	Book amount	
			2017	2016
Shinwha Intertek Corp. ¹	Korea	15.26	₩ 10,738	₩ 16,918
Taebaek Wind Power Co., Ltd.	Korea	35.00	5,334	5,334
Pyeongchang Wind Power Co., Ltd. ²	Korea	42.00	6,510	6,510
Hyosung Information System Co., Ltd.	Korea	50.00	24,860	24,860
Hyosung Toyota Corp.	Korea	40.00	-	-
Hyosung ITX Co., Ltd.	Korea	34.99	6,961	6,961
PT. Gelora Mandiri Membangun ¹	Indonesia	15.00	4,687	4,687
PT. Papua Agro Lestari ¹	Indonesia	15.00	10,458	10,458
The Kwangjuilbo	Korea	49.00	3,290	3,920
			₩ 72,838	₩ 79,648

¹ Although the Company holds less than 20% of the associate's equity shares, the Company decided that it has significant influence over the associate in the way of representation on the governing body of the investee and interchange of managerial personnel.

² Equity shares of Pyeongchang Wind Power Co., Ltd. are pledged as security to financial institutions for the borrowings of Pyeongchang Wind Power Co., Ltd. (Note 21 and 40).

Details of impairment losses recognized in relation to investments in subsidiaries and associates for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017			
	Book amount before recognizing impairment loss	Recoverable amount	Impairment loss	Method used
Shinwha Intertek Corp.	₩ 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
	₩ 98,473	₩ 32,875	₩ 65,598	

(in millions of Korean won)

	2016			
	Book amount before recognizing impairment loss	Recoverable amount	Impairment loss	Method used
Nantong Hyosung Transformer Co., Ltd.	₩ 10,796	₩ 6,988	₩ 3,808	Value-in-use
Hyosung Sumiden Steel Cord(Nanjing) CO., Ltd.	35,795	10,772	25,023	Net fair value
Lloyd Dynamowerke GmbH	381	-	381	Net fair value
	₩ 46,972	₩ 17,760	₩ 29,212	

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

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subsidiaries and associates with an appropriate discount rate, and a valuation report from an independent external valuation agency was used.

Fair value of investments in associates that has a quoted market price as at December 31, 2017 and 2016, are as follows:

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

	2017			
	Number of shares	Market price per share	Fair value	Book amount
Hyosung ITX Co., Ltd.	4,349,000	₩ 12,600	₩ 54,797	₩ 6,961
Shinwha Intertek Corp.	4,446,227	2,415	10,738	10,738

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

	2016			
	Number of shares	Market price per share	Fair value	Book amount
Hyosung ITX Co., Ltd.	4,349,000	₩ 11,700	₩ 50,883	₩ 6,961
Shinwha Intertek Corp.	4,446,227	3,675	16,340	16,918

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21. Related Party Transactions

Details of subsidiaries, associates and other related parties as at December 31, 2017, are as follows:

Subsidiaries

Location	Related Party
Domestic	Gongdeok Gyeongwoo Development Corporation, Nautilus Hyosung Inc., Somesevit Corporation, HSC 1 st LLC., HSC 3 rd LLC., HSCS 1 st LLC., Forza Motors Korea Corp., HanaLandchip Private Real Estate Investment Trust No.39, ATMplus.Inc, Nautilus Hyosung CMS Inc., Nautilus Hyosung Tech Inc., Taeansolarfarm Corp., Hyosung Goodsprings, Inc., Hyosung FMS Co., Ltd., Hyosung Capital Co., Ltd., Hyosung Investment & Development Corporation, Hyosung Trans World Co., Ltd., Hyosung Capital 18th Special purpose company, Pohang Renewable Energy, Inc., Hyosung Capital The 20 th Securitization Co., Ltd., Hyosung Capital The 21 st Securitization Co., Ltd., Hyosung Capital The 22 nd Securitization Co., Ltd., Hyosung Capital The 23 rd Securitization Co., Ltd., Hyosung Capital The 24 th Securitization Co., Ltd., Hyosung Capital The 25 th Securitization Co., Ltd.
America	Global Safety Textiles U.S. Holdings, Inc., Global Safety Textiles LLC, GST Safety Textiles Mexico S. de R.L. de C.V GST Automotive Safety Components International LLC, GST Automotive Safety Components International LLC S.A.de C.V, HICO America Sales & Tech., Hyosung Holdings USA, Hyosung Brasil industria e comercio de fibras LTDA, Hyosung Mexico S. de R.L. de C.V., Hyosung Participacoes Brasil LTDA, Hyosung USA Inc., Nautilus Hyosung America Inc., Consortio Hyosung-VIMAC, S.A.
Europe	GST Global GmbH, Global Safety Textiles GmbH, GST Automotive Safety Poland Sp.z.oo, GST Automotive Safety UK Limited, GST Automotive Safety RO S.R.L., GST Safety Textiles RO S.R.L., Hyosung Europe SRL, Hyosung Istanbul Tekstil Ltd.STI, Hyosung Luxembourg S.A, Hyosung SRL, Hyosung RUS
Asia	Hyosung Corporation India Pvt. Ltd., Hyosung T&D India Pvt Ltd, PT. HYOSUNG JAKARTA, Hyosung(Taiwan) Corporation, Hyosung Japan Co., Ltd., Hyosung Singapore PTE Ltd., Hyosung Vietnam Co., Ltd., Hyosung DongNai Co.,Ltd.
China	Baoding Hyosung Tianwei Transformer Co., Ltd., Hyosung (H.K) LIMITED, Hyosung Chemical Fiber (Jiaxing) Co., Ltd., Hyosung Chemicals (Jiaxing) Co., Ltd., GST China Investment Limited (Hong Kong), Hyosung Financial System (Huizhou) Co., Ltd.,

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	Hyosung International Trade(Jiaxing) Co., Ltd.,
	Hyosung Spandex (GuangDong) Co., Ltd.,
	Hyosung Spandex (Jiaxing) Co., Ltd., Hyosung spandex(Quzhou) Co., Ltd.,
	Hyosung Spandex (Zhuhai) Co., Ltd.,
	Hyosung Sumiden Steel Cord (Nanjing) Co., Ltd.,
	Hyosung Steel Cord (Qingdao) Co., Ltd.,
	Zhangjiagang Xiaosha Coil Service Co., Ltd.,
	Hyosung International(HK) Ltd., Nantong Hyosung Transformer Co., Ltd.,
	GST Automotive Safety(Changshu) Co. Ltd.,
	Hyosung New Material & Hitech(Quzhou),
	Luck Faith Investment Ltd., Central Trade Investment Ltd.
Others	Hyosung Resource (Australia) PTY Ltd.,
	GST Automotive Safety South Africa(Proprietary) Limited,
	Hyosung South Africa (PTY) Ltd.

Associates

Location	Related Party
Domestic	Soonchon Eco Green Corporation, Shinwha Intertek Co. Ltd., The Kwangju Ilbo Co., Ltd., Taebaek Wind Power Co., Ltd., Pyeongchang Wind Power Co., Ltd., Hyosung Information System Co., Ltd., Hyosung Toyota Corp., Hyosung ITX Co., Ltd., Smilegate 2016KVF, PathFinder Youth Enterprise Establishment Investment Association
Asia	Papua Agro Lestari, PT. Gelora Mandiri Membangun(GMM)

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Other related parties

Location	Related Party
Domestic	Galaxia Corportion Co., Ltd, Galaxia device Co., Ltd., Galaxia Micro Payment Co., Ltd, Galaxia Electronics Co., Ltd, Gongdeok Development Corporation, The Class Hyosung Co., Ltd, The Premium Hyosung Co., Ltd., Dong Ryung Co., Ltd, Shin Dong Jin Co., Ltd., A-Seung Automotive Group, ITX Marketing Co., Ltd, ITX M&S Co., Ltd., Trinity Asset Management Co., Ltd., Haengbokdoodrimi Co., Ltd, Hyosung Premier Motors Corporation, ASC(The Best Partners) Co., Ltd. and others
China	Tianjin Galaxia Device Electronics Co., Ltd., Huizhou Galaxia Device Electronics Co., Ltd., QingdaoGalaxia Device Electronics Co., Ltd., Shinwha Intertek (Suzhou) Co.,Ltd, Dongguan Shinwha Intertek Corp, DNS Technology Co., Ltd., Weihai Galaxia Device Electronics, Co., Ltd. and others
Asia	Galaxia Japan, Shinwha Intertek Corp and others
Europe	Shinwha Intertek Slovakia S.R.O and others

Others¹

Location	Related Party
Domestic	Gabe Co., Ltd., Galaxia SM Co., Ltd., Galaxia Communications Co., Ltd., Shinsung Motors.Co. Ltd., Chin Hung International Inc., Taeuk Construction Co., Ltd., EveryShow Co., Ltd. and others
China	IB China, Ltd. and others
Asia	Galaxia Media, Inc. and others
America	IB America, Ltd. and others

¹ Although the entity is not the related party of the Company in accordance with Korean IFRS 1024, the entity belongs to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

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Sales and purchases with related parties for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017			
	Sales and others¹	Dividend income and others	Purchases and others¹	Acquisition of fixed assets
Subsidiaries				
Nautilus Hyosung Inc	₩ 5,384	₩ -	₩ 9,130	₩ 484
Hyosung Goodsprings, Inc.	26,324	3,600	228	490
Hyosung Investment & Development Corporation	-	28,670	-	-
Hyosung Trans World Co., Ltd.	8	2,700	149,468	254
GST Global GmbH	32,129	-	1,405	-
HICO America Sales & Tech.	195,258	-	286	-
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	14,977	-	46,928	-
Hyosung DongNai Co., Ltd.	38,689	-	71,349	-
Hyosung Europe SRL	15,549	-	2,455	-
Hyosung Holdings USA	62,738	-	1,422	-
Hyosung International(HK) Ltd.	33,590	-	919	-
Hyosung Japan Co., Ltd.	228,436	-	29,782	-
Hyosung Luxembourg S.A	45,210	-	-	-
Hyosung Singapore PTE Ltd.	201,735	-	261	-
Hyosung Spandex (Jiaxing) Co., Ltd.	10,918	23,816	161	-
Hyosung Steel Cord (Qingdao) Co., Ltd.	5,098	-	17,368	-
Hyosung USA Inc.	102,892	-	3,047	-
Hyosung Vietnam Co., Ltd.	154,630	97,844	121,375	-
Nantong Hyosung Transformer Co., Ltd.	2,676	-	54,055	-
Others	133,360	31,395	43,507	1,643
	<u>1,309,601</u>	<u>188,025</u>	<u>553,146</u>	<u>2,871</u>
Associates				
Shinwha Intertek Corp.	11,415	222	27	-
Hyosung ITX Co., Ltd.	1	874	3,602	143
Hyosung Information System Co., Ltd.	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., Ltd	210	-	14,269	1,159
Gongdeok Development Corporation	19	-	8,479	-
The Class Hyosung	3,402	-	13	-
Shin Dong Jin Co., Ltd.	-	-	6,336	-
Others	4	-	397	-
	<u>3,635</u>	<u>-</u>	<u>29,494</u>	<u>1,159</u>
Others				
Chin Hung International Inc.	407	-	-	-
Others	1,039	-	5,286	-
	<u>1,446</u>	<u>-</u>	<u>5,286</u>	<u>-</u>
	<u>₩ 1,327,339</u>	<u>₩ 191,716</u>	<u>₩ 592,137</u>	<u>₩ 4,549</u>

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	2016			
	Sales and others¹	Dividend income and others	Purchases and others¹	Acquisition of fixed assets
Subsidiaries				
Nautilus Hyosung Inc	5,232	-	10,055	403
Hyosung Goodsprings, Inc.	20,915	3,600	2,310	2,580
Hyosung Investment & Development Corporation	-	26,320	-	-
Hyosung Trans World Co., Ltd.	25	2,400	138,414	385
GST Global GmbH	28,084	-	1,236	-
HICO America Sales & Tech.	159,384	-	1,002	-
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	16,038	-	53,726	-
Hyosung DongNai Co., Ltd.	33,035	-	31,705	-
Hyosung Europe SRL	25,469	-	839	-
Hyosung Holdings USA.	54,719	-	1,634	-
HYOSUNG INTERNATIONAL(HK) Ltd.	30,542	-	761	-
Hyosung Japan Co., Ltd.	W 224,454	W -	W 34,006	W 532
Hyosung Luxembourg S.A	39,565	-	57	-
Hyosung Singapore PTE Ltd.	188,551	-	10,029	-
Hyosung Spandex (Jiaxing) Co., Ltd.	10,740	35,738	833	-
Hyosung Steel Cord (Qingdao) Co., Ltd.	3,844	-	32,816	-
Hyosung USA Inc.	110,797	-	1,067	-
Hyosung Vietnam Co., Ltd.	137,319	105,468	130,547	-
Nantong Hyosung Transformer Co., Ltd.	8,366	-	48,281	-
Others	121,300	12,363	39,552	2,108
	<u>1,218,379</u>	<u>185,889</u>	<u>538,870</u>	<u>6,008</u>
Associates				
Shinwha Intertek Corp.	6,625	-	5	-
Hyosung ITX Co., Ltd.	-	439	2,166	380
Hyosung Information System Co., Ltd.	66	3,460	373	618
Others	2,273	-	40	-
	<u>8,964</u>	<u>3,899</u>	<u>2,584</u>	<u>998</u>
Other related parties				
Galaxia Electronics Co., Ltd	242	-	19,567	3,587
Gongdeok Development Corporation	-	-	8,590	-
The Class Hyosung	2,750	-	8	-
Shin Dong Jin Co., Ltd.	-	-	6,139	-
Others	83	-	441	-
	<u>3,075</u>	<u>-</u>	<u>34,745</u>	<u>3,587</u>
Others				
Chin Hung International Inc.	743	-	51,803	-
Others	999	-	689	-
	<u>1,742</u>	<u>-</u>	<u>52,492</u>	<u>-</u>
	<u>W 1,232,160</u>	<u>W 189,788</u>	<u>W 628,691</u>	<u>W 10,593</u>

¹ Sales, other income, interest income and others are included in sales and others. Purchase of raw materials, export fees, service fees, other expenses and others are included in purchases and others.

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Outstanding balances arising from sales/purchases of goods and services as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017			
	Trade receivables	Other receivables¹	Trade payables	Other payables¹
Subsidiaries				
Gongdeok Gyeongwoo Development Corporation	₩ 220	₩ 28,617	₩ 37	₩ -
Somesevit Corporation	-	22,000	-	151
Hyosung Goodsprings, Inc.	3,739	979	160	19,347
Hyosung Transworld, Co., Ltd.	-	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 Kwangju Ilbo Co., Ltd.	-	7,727	-	55
Hyosung ITX Co., Ltd.	-	-	981	2,598
Hyosung Toyota Corp.	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., Ltd.	-	-	444	40
Gongdeok Development Corporation	-	4,344	-	19
Shin Dong Jin Co., Ltd.	-	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., Ltd.	8	-	-	643
Chin Hung International Inc.	-	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>
	<u>₩ 121,060</u>	<u>₩ 144,212</u>	<u>₩ 71,740</u>	<u>₩ 107,869</u>

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	2016							
	Trade receivables	Other receivables ¹	Trade payables	Other payables ¹				
Subsidiaries								
Galaxia Photonics Co., Ltd.	W	-	W	6,773	W	-	W	-
Gongdeok Gyeongwoo Development Corporation		1,752		26,315		-		-
Doomi Construction Co., Ltd.		113,190		8,932		-		40
Somesevit Corporation		-		22,000		-		140
Hyosung Goodsprings, Inc.		579		263		-		14,951
Hyosung Transworld, Co., Ltd.		-		1		6,701		18,995
Baoding Hyosung Tianwei Transformer Co., Ltd.		-		15,818		405		-
GST Global GmbH		13,396		217		-		93
Hyosung Chemical Fiber(Jiaxing)Co., Ltd.		6,260		111		4,907		87
Hyosung Spandex(Jiaxing) Co., Ltd.		5,070		253		28		-
Hyosung T&D India Pvt Ltd.		14,993		25		3,064		-
Hyosung Vietnam Co., Ltd.		5,371		1,617		24,605		5
Nantong Hyosung Transformer Co., Ltd.		3,308		9,851		15,862		229
Zhangjiagang Xiaosha Coil Service Co., Ltd.		9,085		2		2		-
Others		20,753		14,135		10,904		10,564
		<u>193,757</u>		<u>106,313</u>		<u>66,478</u>		<u>45,104</u>
Associates								
Shinwha Intertek Co., Ltd.		3,832		2		-		99
The Kwangju Ilbo Co., Ltd.		-		7,482		-		22
Hyosung ITX Co., Ltd.		-		-		500		732
Hyosung Toyota Corp.		1,410		-		-		-
PT. Gelora Mandiri Membangun		-		5,345		-		-
Others		-		25		-		307
		<u>5,242</u>		<u>12,854</u>		<u>500</u>		<u>1,160</u>
Other related parties								
Galaxia Electronics Co., Ltd.		-		-		5,626		3,135
Gongdeok Development Corporation		-		4,344		-		7
Shin Dong Jin Co., Ltd.		-		3,963		-		461
Others		-		597		-		787
		<u>-</u>		<u>8,904</u>		<u>5,626</u>		<u>4,390</u>
Others								
Galaxia Communications Co., Ltd.		104		-		3		1,209
Chin Hung International Inc.		847		48		-		29,665
Others		-		-		-		254
		<u>951</u>		<u>48</u>		<u>3</u>		<u>31,128</u>
	W	<u>199,950</u>	W	<u>128,119</u>	W	<u>72,607</u>	W	<u>81,782</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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Fund transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017						
	Loan transactions					Ending balance	Contributions in cash
Beginning balance	Loans	Collection	Loans written off/ other	Translation exchange differences			
Subsidiaries							
Gongdeok Gyeongwoo Development Corporation	₩ 20,361	₩ -	₩ -	₩ -	₩ -	₩ 20,361	₩ -
Galaxia Photonics Co., Ltd. ¹	5,541	-	(1,259)	(4,282)	-	-	5,397
Pohang Renewable Energy, Inc. ²	-	2,200	-	-	-	2,200	500
Baoding Hyosung Tianwei Transformer Co., Ltd. ³	14,502	1,780	-	-	(1,711)	14,571	-
Hyosung Resource (Australia) PTY Ltd.	-	-	-	-	-	-	92
Hyosung South Africa(PTY) Ltd. ⁴	-	-	-	-	-	-	-
Lloyd Dynamowerke GmbH ⁵	-	23,721	(1,021)	(22,700)	-	-	-
Associates							
The Kwangju Ilbo Co., Ltd.	7,149	-	-	-	-	7,149	-
Soonchon Eco Green Corporation ⁶	-	924	-	-	-	924	-
PT. Gelora Mandiri Membangun	5,345	-	-	-	(607)	4,738	-
Others							
Chin Hung International Inc.	-	-	-	-	-	-	28,400

¹ ₩ 1,259 million of Galaxia Photonics Co., Ltd. loans were collected and ₩ 5,397 million, including accrued interest, was converted into equity.

² The Company gave loan to Pohang Renewable Energy Inc. during 2017, and invested ₩ 500 million.

³ The Company established ₩ 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 ₩ 1,692 million during the year.

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 Soonchon Eco Green Corporation into loans. The Company established ₩ 924 million of impairment provision for all of the loans to Soonchon Eco Green Corporation as at December 31, 2017, and recognized impairment losses amounting to ₩ 924 million during the year.

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(in millions of Korean won)

	2016							Contributions in cash
	Beginning balance	Loans	Collection	Loans written off/ other	Translation exchange differences	Ending balance		
Subsidiaries								
Galaxia Photonics Co., Ltd. ¹	₩ 1,391	₩ 4,150	₩ -	₩ -	₩ -	₩ 5,541	₩ -	
Gongdeok Gyeongwoo Development Corporation	20,361	-	-	-	-	20,361	-	
Baoding Hyosung Tianwei Transformer Co., Ltd. ³	-	14,154	-	-	348	14,502	-	
Hyosung Resource (Australia) PTY Ltd.	-	-	-	-	-	-	100	
Hyosung sumiden steel cord (Nanjing) Co., Ltd. ²	-	41,998	(15,088)	(26,910)	-	-	28,549	
Associates								
The Kwangju Ilbo Co., Ltd.	7,149	-	-	-	-	7,149	-	
PT. Gelora Mandiri Membangun	5,183	-	-	-	162	5,345	-	
PT. Papua Agro Lestari	-	-	-	-	-	-	4,111	

¹ The Company established ₩ 5,332 million of impairment provision for the loans to Galaxia Photonics Co., Ltd. as at December 31, 2016, and recognized impairment losses amounting to ₩ 5,332 million during the year.

² For the year ended December 31, 2016, ₩ 15,088 million of loans was collected and ₩ 26,910 million of loans was converted to equity.

³ The Company established ₩ 5,966 million of impairment provision for the loans to Baoding Hyosung Tianwei Transformer Co., Ltd. as at December 31, 2016, and recognized impairment losses amounting to ₩ 5,966 million during the year.

The Company acquired convertible bonds (total amount of ₩ 35,000 million) issued by its subsidiary, Hyosung Engineering Co., Ltd., from its subsidiary, SYHS 1st Corp., for ₩ 34,969 million during 2017. Hereafter, the Company merged with Hyosung Engineering Co., Ltd., so the convertible bonds were eliminated.

The compensation paid or payable to key management who are executive directors for employee services for the years ended December 31, 2017 and 2016, consists of:

(in millions of Korean won)

	2017		2016	
Salaries and other short-term employee benefits	₩	5,730	₩	8,982
Post-employment benefits		383		980
	₩	6,113	₩	9,962

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

(in millions of Korean won)

2017

	Guaranteed amount	Remark	Guaranteed by
Subsidiaries			
Gongdeok Gyeongwoo Development Corporation	₩ 170,000	Borrowings	Korea Development Bank and others
Somesevit Corporation	98,400	Borrowings	Newstarhaechi Co.,Ltd. and other
GST Automotive Safety(Changshu) Co., Ltd	25,714	Borrowings	The Export-Import Bank of Korea and others
GST Global GmbH.	290,927	Borrowings	Sindy Loan and others
HICO America Sales & Tech.	16,071	Borrowings	Woori Bank
Hyosung Brasil Industria E Comercio De Fibras Ltda.	7,500	Borrowings	The Export-Import Bank of Korea
Hyosung Chemical Fiber (Jiaxing) Co., Ltd.	64,284	Borrowings	Korea Development Bank and others
Hyosung Chemicals (Jiaxing) Co., Ltd.	23,571	Borrowings	Korea Development Bank and others
Hyosung DongNai Co,LTD	558,251	Borrowings	The Export-Import Bank of Korea and others
Hyosung Holdings USA,Inc.	74,248	Borrowings	KB Kookmin Bank and others
Hyosung International(HK) Ltd.	20,357	Borrowings	Korea Development Bank and others
Hyosung Istanbul TEKSTIL LTD.STI.	58,927	Borrowings	The Export-Import Bank of Korea and others
Hyosung Japan Co.,Ltd	127,854	Borrowings	KEB Hana Bank and others
Hyosung Luxembourg S.A.	23,027	Borrowings	Shinhan Bank and others
Hyosung New Material & Hitech(Quzhou)	27,527	Borrowings	Korea Development Bank and others
Hyosung Singapore PTE Ltd.	10,714	Borrowings	Woori Bank
Hyosung Spandex(GuangDong) Co.,Ltd	112,818	Borrowings	Korea Development Bank
Hyosung Spandex(Jiaxing) Co., Ltd.	48,213	Borrowings	The Export-Import Bank of Korea and others
Hyosung Spandex(Quzhou)	93,741	Borrowings	Korea Development Bank and others
Hyosung Spandex(Zhuhai)Co., Ltd.	12,857	Borrowings	The Export-Import Bank of Korea and others
Hyosung Steel Cord (Qingao) Co., Ltd	134,667	Borrowings	The Export-Import Bank of Korea and others
Hyosung T&D India Private Limited	49,997	Borrowings	The Export-Import Bank of Korea and others
Hyosung USA, Inc.	55,713	Borrowings	KEB Hana Bank and others
Hyosung Vietnam Co.,Ltd	328,063	Borrowings	The Export-Import Bank of Korea and others
Nantong Hyosung Transformer Co.,Ltd.	149,551	Borrowings	Korea Development Bank and others
Associates			
Soonchon Eco Green Corporation	48,391	Borrowings	Industrial Bank of Korea and others
	<u>₩ 2,631,383</u>		

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

	Carrying Amount	Secured amount	Secured asset	Remark	Amount of Borrowings	Provided by
Subsidiaries						
Gongdeok Gyeongwoo Development Corporation ¹	₩ 974	₩ 974	Equity security	Borrowings	₩ 165,000	Korea Development Bank and others
Somesevit Corporation	-	-	Equity security	Borrowings	56,000	Newstarhaechi Co.,Ltd.
Associates						
Soonchon Eco Green Corporation ²	-	-	Equity security	Borrowings	39,391	Industrial Bank of Korea and others
Pyeongchang Wind Power Co., Ltd.	6,510	6,510	Equity security	Borrowings	59,407	Woori Bank and others
Hyosung Toyota Corp. ³	31,469	3,200	PP&E	Borrowings	-	TOYOTA Motor KOREA Co., Ltd
Other related parties						
Chin Hung International Inc. ⁴	135,141	135,141	Equity security	-	-	Committee of Creditor Banks of Chin Hung International Inc.
	<u>₩ 174,094</u>	<u>₩ 145,825</u>			<u>₩ 319,798</u>	

¹ Other than the collateral above, the Company provides a cash deficiency support agreement amounting ₩ 170,000 million in relation to Project Financing construction of Gongdeok Gyeongwoo Development Corporation (Note 40).

² Other than the collateral above, the Company provides a performance guarantee amounting 45,391 million and, a cash deficiency support agreement amounting ₩ 3,000 million, including 2 Checks as collaterals, to Soonchon Eco Green Corporation (Note 40).

³ Certain amounts of property, plant and equipment are provided as collaterals to Toyota Motor Korea Co., Ltd. in relation to the inventory financing of Hyosung Toyota Corp. (Note 15 and 40).

⁴ The equity shares of Chin Hung International Inc. are provided as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc.(Note 12 and 40).

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22. Trade Payables and Other Payables

Trade payables and other payables as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Trade payables	₩	991,921	₩	697,633
Other payables		426,228		473,224
Long-term other payables		204,618		57,992
	₩	<u>1,622,767</u>	₩	<u>1,228,849</u>

Details of other payables as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Other payables				
Non-trade payables	₩	299,827	₩	356,938
Accrued expenses		59,737		53,448
Withholdings		21,136		20,157
Deposits received		45,528		42,681
		<u>426,228</u>		<u>473,224</u>
Long-term other payables				
Non-trade payables		6,619		7,098
Accrued expenses		6,144		6,465
Deposits received		191,855		44,429
		<u>204,618</u>		<u>57,992</u>
	₩	<u>630,846</u>	₩	<u>531,216</u>

The fair value of long-term other payables is calculated by discounting nominal value of expected future cash inflows at a discount rate which reflects credit risk.

	2017	2016
Discount rate	1.60%~ 5.00%	1.80%~5.00%

The fair value of trade payables and other payables at the end of the current and previous periods is similar to the carrying amount.

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23. Borrowings

Borrowings as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Short-term borrowings	₩	483,894	₩	305,510
Borrowings of sales receivables ¹		249,445		174,312
Long-term borrowings		639,281		939,425
Debentures		757,203		898,857
		<u>2,129,823</u>		<u>2,318,104</u>
Less: current portion		<u>(1,318,461)</u>		<u>(1,248,896)</u>
	₩	<u>811,362</u>	₩	<u>1,069,208</u>

¹ The Company sells trade receivables in foreign currency to financial institutions and accounted for collateralized borrowings for transactions in which the company has recourse to pay the relevant amount to the bank when the sales customer goes bankrupt. (Notes 7 and 40)

The Company provides some of the Company's property, plant and equipment as collateral for the above borrowings. (Notes 15 and 40).

Details of carrying amount of short-term borrowings as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	Creditor	Latest Maturity date	Annual interest rate (%) December 31, 2017	2017		2016	
Short-term borrowings denominated in Korean won							
General loan	Korea Development Bank and others	2018-12-29	2.66~3.37	₩	223,820	₩	6,666
Short-term borrowings denominated in foreign currency							
General loan	Shinhan Bank	2018-01-31	2.83		10,714		12,085
Other	Woori Bank and others	2018-12-24	0.25~2.46		498,805		461,071
				₩	<u>733,339</u>	₩	<u>479,822</u>

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Details of carrying amount of long-term borrowings as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	Creditor	Latest Maturity date	Annual interest rate (%) December 31, 2017		2017		2016
Long-term borrowings denominated in Korean won							
General loan	Shinhan Bank and others	2027-12-15	0.75~3.39	₩	81,307	₩	187,359
Facility loan	Korea Development Bank and others	2023-07-27	1.75~4.12		338,641		505,340
Long-term borrowings denominated in foreign currency							
General loan	Korea Development Bank and others	2020-11-14	1.97~3.59		165,763		77,536
Facility loan	DBS banks and others	2020-11-14	2.66~3.11		53,570		169,190
Total					639,281		939,425
Less: current portion					(296,649)		(629,074)
				₩	342,632	₩	310,351

Details of carrying amount of debentures as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	Creditor	Latest Maturity date	Annual interest rate (%) December 31, 2017		2017		2016
Fixed interest rate Korean won debenture							
	251-2 nd Public bond	2017-02-07	-	₩	-	₩	60,000
	253-2 nd Public bond	2018-02-21	3.75		30,000		30,000
	254 Private bond	2017-05-02	-		-		30,000
	256-1 st Public bond	2017-02-25	-		-		50,000
	256-2 nd Public bond	2018-02-25	3.28		100,000		100,000
	256-3 rd Public bond	2020-02-25	3.76		50,000		50,000
	257-1 st Public bond	2018-06-26	2.90		130,000		130,000
	257-2 nd Public bond	2020-06-26	3.97		70,000		70,000
	259-1 st Private bond	2019-04-25	2.78		102,000		102,000
	259-2 nd Private bond	2021-04-25	3.43		98,000		98,000
	260-1 st Public bond	2019-12-27	2.70		120,000		120,000
	260-2 nd Public bond	2021-12-28	3.44		30,000		30,000
Fixed interest rate Foreign currency debenture							
	258 Private bond	2018-12-29	0.70		28,473		31,104
Total					758,473		901,104
Less: current portion					(288,473)		(140,000)
Discount on bonds payable					(1,270)		(2,247)
				₩	468,730	₩	758,857

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Notes to the Separate Financial Statements
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24. Post-employment Benefits

24.1 Defined Benefit Plan

Details of net defined benefit liabilities recognized in the separate statements of financial position as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Present value of defined benefit obligations	₩ 373,689	₩ 355,941
Fair value of plan assets ¹	(358,084)	(324,277)
Net defined benefit liabilities	<u>₩ 15,605</u>	<u>₩ 31,664</u>

¹ The contributions to the National Pension Fund of ₩ 406 million are included in the fair value of plan assets as at December 31, 2017 (2016: ₩ 432 million).

The amounts recognized in the separate statements of profit or loss for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Current service cost	₩ 47,479	₩ 48,045
Interest expense	7,934	7,012
Interest income	(9,429)	(8,650)
	<u>₩ 45,984</u>	<u>₩ 46,407</u>

Line items including total expenses in the separate statements of profit or loss for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Cost of sales	₩ 27,616	₩ 28,329
Selling and administrative expenses	16,056	15,905
Research and development expenses	2,312	2,173
	<u>₩ 45,984</u>	<u>₩ 46,407</u>

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Movements in the defined benefit obligations for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning balance	₩	355,941	₩	322,301
Current service cost		47,479		48,045
Interest expense		7,934		7,012
Benefit payments		(18,050)		(18,623)
Remeasurements:				
Actuarial loss from change in demographic assumptions		-		1,009
Actuarial loss (gain) from change in financial assumptions		(16,780)		(8,184)
Actuarial loss (gain) from experience adjustments		(4,593)		4,437
Transfer from(to) associates		(32)		(56)
Effects of the merger		1,790		-
Ending balance	₩	<u>373,689</u>	₩	<u>355,941</u>

Movements in the fair value of plan assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Beginning balance	₩	324,277	₩	301,911
Interest income		9,429		8,650
Employer's contributions		46,300		31,100
Benefit payments		(16,836)		(13,772)
Remeasurements		(5,060)		(3,578)
Transfer from(to) associates		(26)		(34)
Ending balance	₩	<u>358,084</u>	₩	<u>324,277</u>

Plan assets as at December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017		2016	
	Amount	Portion	Amount	Portion
Deposits	₩ 245,953	68.69%	₩ 223,620	68.96%
Debt instruments	112,131	31.31%	100,657	31.04%
	<u>₩ 358,084</u>	<u>100.00%</u>	<u>₩ 324,277</u>	<u>100.00%</u>

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Remeasurements of net defined benefit liabilities recognized as other comprehensive income (expenses) for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Before income tax effects	₩	16,314	₩	(840)
Income tax effects		(3,948)		203
After income tax effects	₩	12,366	₩	(637)

Accumulated remeasurements of net defined benefit liabilities recognized as other comprehensive income (expenses) is ₩ 47,971 million (2016: ₩ 60,336 million) as at December 31, 2017.

The significant actuarial assumptions as at December 31, 2017 and 2016, are as follows:

	2017	2016
Discount rate	3.19%	2.82%
Salary growth rate	2.55%	2.67%

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	Changes in assumption	Impact on defined benefit obligation
Discount rate	1.0% increase/decrease	7.6% decrease / 9.5% increase
Salary growth rate	1.0% increase/decrease	9.4% increase / 7.7% 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.

The Company reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund.

Expected contributions to post-employment benefit plans for the year ending December 31, 2018, are ₩ 41,834 million and expected balance of plan assets are ₩ 319,612 million as at December 31, 2018.

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The expected maturity analysis of undiscounted pension benefits as at December 31, 2017, is as follows:

<i>(in millions of Korean won)</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years¹	Total
Pension benefits	₩ 15,509	₩ 20,806	₩ 69,253	₩ 628,525	₩ 734,093

¹ The amount includes executives and contract employees.

The weighted average duration of the defined benefit obligations is 10.4 years.

24. 2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 6,521 million (2016: ₩ 3,586 million).

25. Tax Expense and Deferred Tax

Income tax expense for the years ended December 31, 2017 and 2016, consists of:

<i>(in millions of Korean won)</i>	2017	2016
Current tax		
Current tax on profit for the year	₩ 115,540	₩ 165,492
Adjustments in respect of prior years	(96,480)	(2,605)
Total current tax	<u>19,060</u>	<u>162,887</u>
Deferred tax		
Origination and reversal of temporary differences	(49,864)	(76,019)
Total deferred tax	<u>(49,864)</u>	<u>(76,019)</u>
Income tax expense(income)	<u>₩ (30,804)</u>	<u>₩ 86,868</u>

The tax on the company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows:

<i>(in millions of Korean won)</i>	2017	2016
Profit before income tax expense	₩ 285,263	₩ 625,240
Tax calculated at tax rates	₩ 68,572	₩ 150,846
Tax effects of		
Income not subject to tax	(5,354)	(4,930)
Expenses not deductible for tax purposes	26,084	15,477
Unrecognized deferred income tax assets	(2,490)	7,534
Adjustment in respect of prior years	(96,480)	(2,605)
Tax credits	(23,052)	(33,681)
Others	1,916	(45,773)
Income tax expense(benefit)	<u>₩ (30,804)</u>	<u>₩ 86,868</u>

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The tax effect relating to components of other comprehensive income (expenses) for the years ended December 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Loss on valuation of available-for-sale securities	₩ (21,991)	₩ 5,322	₩ (16,669)	₩ (53,499)	₩ 12,947	₩ (40,552)
Remeasurements of net defined benefit liabilities	63,286	(15,315)	47,971	79,599	(19,263)	60,336
	<u>₩ 41,295</u>	<u>₩ (9,993)</u>	<u>₩ 31,302</u>	<u>₩ 26,100</u>	<u>₩ (6,316)</u>	<u>₩ 19,784</u>

The analysis of deferred tax assets and deferred tax liabilities as at December 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	2017	2016
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 260,035	₩ 213,270
Deferred tax asset to be recovered within 12 months	42,804	37,427
	<u>302,839</u>	<u>250,697</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(404,756)	(407,053)
Deferred tax liability to be recovered within 12 months	(2,698)	(1,800)
	<u>(407,454)</u>	<u>(408,853)</u>
Deferred tax assets (liabilities), net	<u>₩ (104,615)</u>	<u>₩ (158,156)</u>

The movements in the deferred income tax account for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Beginning balance	₩ (158,156)	₩ (232,521)
Tax charged to the statement of profit or loss	49,864	76,019
Tax charged (credited) to components of other comprehensive income	3,677	(1,654)
Ending balance	<u>₩ (104,615)</u>	<u>₩ (158,156)</u>

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The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(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	₩ (283,477)	₩ 2,564	₩ -	₩ (280,913)
Investment in subsidiaries and associates	(28,752)	-	-	(28,752)
Defined benefit pension plan assets	(78,371)	(9,412)	1,224	(86,559)
Reserve for research and human resource development	(12,100)	8,067	-	(4,033)
Gain from fire insurance policy	(106)	4	-	(102)
Others	(6,047)	(1,048)	-	(7,097)
	<u>(408,853)</u>	<u>175</u>	<u>1,224</u>	<u>(407,454)</u>
Deferred tax assets				
Available-for-sale financial assets	86,652	2,939	7,625	97,216
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	22,992	-	35,860
Impairment loss on intangible assets subject to amortization	-	52	-	52
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	(77)	-	1,487
Others	16,439	(8,500)	-	7,939
	<u>250,697</u>	<u>49,689</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>

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	2016			
	Beginning balance	Statement of profit or loss	Other comprehensive income	Ending balance
Deferred tax liabilities				
Gains on revaluation of land	₩ (283,477)	₩ -	₩ -	₩ (283,477)
Investment in subsidiaries and associates	(82,344)	53,592	-	(28,752)
Defined benefit pension plan assets	(71,702)	(7,535)	866	(78,371)
Reserve for research and human resource development	(23,393)	11,293	-	(12,100)
Gain from fire insurance policy	(546)	440	-	(106)
Others	(5,528)	(519)	-	(6,047)
	<u>(466,990)</u>	<u>57,271</u>	<u>866</u>	<u>(408,853)</u>
Deferred tax assets				
Available-for-sale financial assets	88,730	(221)	(1,857)	86,652
Post-employment benefit obligation	71,702	10,102	(663)	81,141
Provision for receivables in excess of tax limit	19,414	2,510	-	21,924
Government grants	5,425	(653)	-	4,772
Loss on valuation of inventories	9,302	(2,618)	-	6,684
Impairment loss on property, plant and equipment	6,442	6,426	-	12,868
Provision for guarantees	1,536	(1,536)	-	-
Accrued compensated absences	4,003	179	-	4,182
Provision for warranties	8,943	1,971	-	10,914
Provision for construction loss	4,318	(761)	-	3,557
Long-term employment allowance	1,438	126	-	1,564
Others	13,216	3,223	-	16,439
	<u>234,469</u>	<u>18,748</u>	<u>(2,520)</u>	<u>250,697</u>
	<u>₩ (232,521)</u>	<u>₩ 76,019</u>	<u>₩ (1,654)</u>	<u>₩ (158,156)</u>

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 ₩ 56,813 million (2016: ₩ 102,139 million) as at December 31, 2017.

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26. Other Liabilities

Details of other liabilities as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Other current liabilities				
Advances from customers	₩	248,611	₩	216,281
Unearned revenues		392		2,221
		249,004		218,502
Other non-current liabilities				
Unearned revenues		20,920		4,711
Provision for warranties ¹		51,156		45,099
Provision for guarantees ²		50,589		5,499
		122,666		55,309
	₩	371,699	₩	273,811

¹ The Company accrued provision for warranties in relation to construction contract for the foreseeable expenses; such as, defect repairs based on past experience.

² As at December 31, 2017, the Company sets the expected expenses as provisions for guarantee obligations for subsidiaries and supplementary funding obligations related to the company's business.

Details and changes in provisions for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017					
	Provision for warranties		Others		Total	
Beginning balance	₩	45,099	₩	5,499	₩	50,598
Additional provisions		21,577		50,589		72,166
Used during the year		(15,520)		(5,499)		(21,019)
Ending balance	₩	51,156	₩	50,589	₩	101,745
<i>(in millions of Korean won)</i>	2016					
	Provision for warranties		Others		Total	
Beginning balance	₩	36,952	₩	6,348	₩	43,300
Additional provisions		27,259		8,975		36,234
Used during the year		(19,112)		(9,824)		(28,936)
Ending balance	₩	45,099	₩	5,499	₩	50,598

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27. Share Capital

The Company's total number of authorized shares is 200,000,000 shares and the total number of ordinary shares issued is 35,117,455 shares (2016: 35,117,455 shares) with a par value of ₩5,000 per share. There were no changes in share capital for the years ended December 31, 2017 and 2016.

28. Retained Earnings

Retained earnings as at December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017	2016
Legal reserves ¹	₩ 59,036	₩ 42,402
Discretionary reserves		
Research and development reserves ²	50,000	96,667
Facility reserves	2,522,000	2,121,000
Retained earnings before appropriation	306,053	514,931
	<u>₩ 2,937,089</u>	<u>₩ 2,775,000</u>

¹ The Commercial Code 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.

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The appropriation of retained earnings for the years ended December 31, 2017 and 2016, is as follows:

<i>(in millions of Korean won)</i>	2017	2016
Unappropriated retained earnings carried over from prior year	₩ (22,380)	₩ (22,805)
Remeasurements of net defined benefit liabilities	12,366	(637)
Profit for the year	316,067	538,372
Transfers such as discretionary reserves		
Research and development reserves	33,333	46,666
Retained earnings available for appropriation	<u>339,386</u>	<u>561,597</u>
Appropriation of retained earnings		
Earned profit reserves	16,634	16,634
Facility reserves	155,000	401,000
Dividends (Cash dividend (%)) :	166,343	166,343
Ordinary share:		
₩5,000 (100%) in 2017		
₩5,000 (100%) in 2016)		
Unappropriated retained earnings to be carried forward	<u>₩ 1,409</u>	<u>₩ (22,380)</u>

29. Other Components of Equity

Other components of equity as at December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017	2016
Other capital surplus	₩ 250,410	₩ 330,210
Treasury shares ¹	(34,204)	(34,204)
Gain (Loss) on valuation of available-for-sale financial assets	16,669	40,552
Currency translation differences	(2,666)	(754)
	<u>₩ 230,209</u>	<u>₩ 335,804</u>

¹ The 1,848,851 treasury shares were acquired through a merger in 1998 and are expected to be sold in the future.

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Changes in accumulated other comprehensive income for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017			
	Beginning balance	Increase (Decrease)	Reclassification to profit or loss	Ending balance
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

(in millions of Korean won)

	2016			
	Beginning balance	Increase (Decrease)	Reclassification to profit or loss	Ending balance
Available-for-sale financial assets	₩ 34,736	₩ 8,947	₩ (3,131)	₩ 40,552
Currency translation differences	(413)	(341)	-	(754)
	₩ 34,323	₩ 8,606	₩ (3,131)	₩ 39,798

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

30. Revenue

Details of revenue for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017		2016	
Merchandise	₩	2,185,778	₩	2,041,039
Finished goods		4,694,882		4,535,523
Construction		1,342,769		1,042,399
Housing		46,015		127,317
Other		240,506		228,063
	₩	8,509,950	₩	7,974,341

31. Construction Contract

Changes in the remaining balance of construction contracts for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017			
	Beginning balance	Changes ¹	Recognized construction revenue	Ending balance
Construction	₩ 4,292,807	₩ 1,303,658	₩ (1,113,510)	₩ 4,482,955
Heavy industrial	529,925	178,607	(275,274)	433,258
	₩ 4,822,732	₩ 1,482,265	₩ (1,388,784)	₩ 4,916,213

¹ In 2017, the increase in subcontracted amount, such as revenue from initial contracts, and decrease in subcontracted amount, such as alterations in the original contract work, amount to ₩ 1,506,158 million and ₩ 23,893 million, respectively.

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(in millions of Korean won)

	2016			
	Beginning balance	Changes¹	Recognized construction revenue	Ending balance
Construction	₩ 3,390,161	₩ 1,731,226	₩ (828,580)	₩ 4,292,807
Heavy industrial	631,682	239,614	(341,371)	529,925
	<u>₩ 4,021,843</u>	<u>₩ 1,970,840</u>	<u>₩ (1,169,951)</u>	<u>₩ 4,822,732</u>

¹ In 2016, the increase in subcontracted amount, such as revenue from initial contracts, and decrease in subcontracted amount, such as alterations in the original contract work, amount to ₩ 2,151,525 million and ₩ 180,685 million, respectively.

Details of recognized construction profit or loss for ongoing construction contracts as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017				
	Accumulated construction revenue	Accumulated construction cost	Accumulated profit or loss	Advance received	Retentions¹
Construction	₩ 1,363,329	₩ 1,249,289	₩ 114,040	₩ 42	₩ -
Heavy industrial	1,319,243	1,265,671	53,572	687	44,818
	<u>₩ 2,682,572</u>	<u>₩ 2,514,960</u>	<u>₩ 167,612</u>	<u>₩ 729</u>	<u>₩ 44,818</u>

¹ In the separate statement of financial position, the amount of retention is recorded as long-term deposits provided.

(in millions of Korean won)

	2016				
	Accumulated construction revenue	Accumulated construction cost	Accumulated profit or loss	Advance received	Retentions¹
Construction	₩ 1,102,754	₩ 990,882	₩ 111,872	₩ 1,388	₩ -
Heavy industrial	1,255,325	1,215,340	39,985	6,398	48,919
	<u>₩ 2,358,079</u>	<u>₩ 2,206,222</u>	<u>₩ 151,857</u>	<u>₩ 7,786</u>	<u>₩ 48,919</u>

¹ In the separate statement of financial position, the amount of retention is recorded as long-term deposits provided.

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Amounts due from and due to customers for contract work as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017		2016	
	Due from customers	Due to customers	Due from customers	Due to customers
Construction	₩ 68,228	₩ 50,342	₩ 54,143	₩ 46,748
Heavy industrial	71,749	26,362	59,714	45,233
	<u>₩ 139,977</u>	<u>₩ 76,704</u>	<u>₩ 113,857</u>	<u>₩ 91,981</u>

Provisions of loss on construction amounting to ₩ 12,501 million (2016: 14,700 million) as at December 31, 2017 are included in amounts due from and due to customers for contract work.

Details of provisions loss on construction as at December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017	2016
Taejeon-dong APT, Gwangju	₩ 3,475	₩ 8,055
Telecom center construction	25	114
Welfare facilities construction in downtown	79	120
Qatar Mesaieed sewage treatment plant facility construction project	4,091	-
India Mokokchung & Melriat project	1,058	1,816
India JHARKHAND project	419	775
Pakistan Gujarat project	454	1,285
Qatar ph10 turnkey construction project and etc.	2,900	2,535
	<u>₩ 12,501</u>	<u>₩ 14,700</u>

Provisions of loss on construction are included in amounts due from and due to customers for contract work in the separate statement of financial position.

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Contractual information that contract revenue for the year ended December 31, 2017 is more than 5% of previous revenues, are as follows:

(in millions of Korean won)	Contract date	Contractual completion date	Percentage-of-completion	Due from customers		Trade receivables (receivables from construction contracts)	
				Gross amount	Accumulated impairment loss	Gross amount	Provision for impairment
Urban Redevelopment Projects on the 4th Yongsan Region, Seoul	December, 2015	November, 2020	9.90%	₩ 1,245	₩ -	₩ -	₩ -

Details of contract that uses percentage-of-completion measured by reference to the contract costs incurred up to date as a percentage of total estimated costs for each operating segments are as follows:

(in millions of Korean won)	Provisions for expected losses	Changes in construction profit or loss		Changes in estimated total contract costs		Due from customers	
		Changes in accounting estimate	Error correction	Changes in accounting estimate	Error correction	Gross amount	Accumulated impairment loss
Construction	₩ 8,416	₩ 2,575	₩ -	₩ (383)	₩ -	₩ 68,228	₩ -
Heavy industrial	4,085	14,947	-	(7,802)	-	71,749	-
	<u>₩ 12,501</u>	<u>₩ 17,522</u>	<u>₩ -</u>	<u>₩ (8,185)</u>	<u>₩ -</u>	<u>₩ 139,977</u>	<u>₩ -</u>

Details of changes in estimated total contract costs, profits or loss for the year and the succeeding year, and the impact on due from customers for contract work are as follows:

(in millions of Korean won)	Changes in estimated total contract revenue	Changes in estimated total contract cost	Impact on profit or loss for the year	Impact on profit or loss for the succeeding year	Changes in due from customers for contract work ^{1,2}
Construction	₩ 1,904	₩ (383)	₩ 2,575	₩ (288)	₩ 2,575
Heavy industrial	(10,871)	(7,802)	14,947	(18,016)	14,947
	<u>₩ (8,967)</u>	<u>₩ (8,185)</u>	<u>₩ 17,522</u>	<u>₩ (18,304)</u>	<u>₩ 17,522</u>

¹ The impact on recognition of housing revenue are included.

² The impact on sites of due to customers for contract work are included.

The impact on profit or loss for the year and the succeeding year is determined based on total contract costs, which are estimated based on the circumstances present from the start of the contract to the end of current year, and the estimated contract revenue as at December 31, 2017. The total contract costs and contract revenue may change in the future.

When the estimated total contract costs increase by 5%, profit before income tax and net assets before income tax effects decrease by ₩ 126,169 million.

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32. Expenses by Nature

Cost of sales, selling and administrative expenses and research and development expenses by nature for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Changes in inventories of finished goods and work in process and others	₩	(55,276)	₩	25,914
Changes in merchandise		2,108,214		1,936,132
Raw materials and consumables used		3,204,198		2,529,136
Employee benefits expenses (Note 33)		677,519		648,809
Depreciation and amortization		288,255		261,496
Electricity expense		193,415		179,025
Export expense		214,028		220,782
Fuel expense		57,363		51,940
Service expense		179,123		161,803
Outsourcing expense		942,420		902,529
Others		285,266		423,582
Total ¹	₩	<u>8,094,525</u>	₩	<u>7,341,148</u>

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

33. Employee Benefits Expenses

Employee benefits expenses for the years ended December 31, 2017 and 2016, consist of:

<i>(in millions of Korean won)</i>	2017		2016	
Salaries	₩	550,240	₩	527,722
Employee welfare benefits		74,774		71,094
Pension costs - defined contribution plans		6,521		3,586
Pension costs - defined benefit plans (Note 24)		45,984		46,407
	₩	<u>677,519</u>	₩	<u>648,809</u>

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34. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Salaries	₩ 138,267	₩ 138,629
Post-employment benefits	19,160	17,489
Employee welfare benefits	14,502	13,457
Training	1,761	1,695
Transportation	17,893	16,638
Communications	3,527	3,626
Taxes and dues	10,312	9,791
Rental expenses	19,799	18,947
Depreciation	8,316	8,751
Amortization	8,312	8,840
Bad debt expenses	10,843	16,002
Operating expenses for overseas branches	21,489	21,642
Advertising expense	31,245	29,114
Freight and storage expenses	25,160	24,619
Commission expenses	46,609	36,056
Export expenses	214,028	220,782
Others	45,522	49,281
	<u>₩ 636,745</u>	<u>₩ 635,359</u>

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35. Other Income and Other Expenses

Details of other income and other expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017	2016
Other operating income		
Rental income	₩ 2,465	₩ 2,325
Gain on derivative transactions	123	546
Gain on valuation of derivatives	-	143
Gain on disposal of property, plant and equipment	448	220
Gain on disposal of investment property	1,660	-
Dividend income	192,049	189,890
Reversal of provision for impairment loss on other assets	1,045	-
Miscellaneous gains	37,448	54,399
	<u>235,238</u>	<u>247,523</u>
Other operating expenses		
Loss on disposal of trade receivables	1,166	1,545
Loss on disposal of property, plant and equipment	1,108	761
Impairment loss on property, plant and equipment	106,526	25,984
Loss on disposal of investment property	10,909	1,200
Loss on disposal of intangible assets	36	450
Impairment loss on intangible assets	213	-
Other bad debt expenses	81,892	25,372
Donations	3,210	4,521
Additional provisions for guarantees	50,505	8,975
Commissions	13,999	10,309
Miscellaneous losses	30,227	26,985
	<u>299,791</u>	<u>106,102</u>
	<u>₩ (64,553)</u>	<u>₩ 141,421</u>

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36. Finance Income and Expenses

Details of finance income and expenses for the years ended December 31, 2017 and 2016, are as follows:

(in millions of Korean won)

	2017		2016
Finance income			
Interest income			
Loans and receivables	₩ 3,836	₩	4,236
Available-for-sale financial assets	95		5
Gain on foreign currency transactions	105,295		125,356
Gain on foreign currency translation	119,743		116,406
Gain on derivative transactions	47,309		27,958
Gain on valuation of derivatives	29,848		4,669
Gain on disposal of financial assets			
Available-for-sale financial assets	321		13,532
Investments in subsidiaries and associates	7		-
	<u>306,454</u>		<u>292,162</u>
Finance expenses			
Interest expenses			
Financial liabilities at amortized cost	73,235		82,820
Other financial liabilities	3,571		4,525
Loss on foreign currency transactions	98,280		165,441
Loss on foreign currency translation	92,115		117,398
Loss on derivative transactions	18,791		16,851
Loss on valuation of derivatives	4,569		20,806
Loss on disposal of financial assets			
Available-for-sale financial assets	-		221
Investments in subsidiaries and associates	-		2,770
Impairment loss of financial assets			
Available-for-sale financial assets	17,052		1,492
	<u>307,613</u>		<u>412,324</u>
	<u>₩ (1,159)</u>	<u>₩</u>	<u>(120,162)</u>

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

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37. Earnings per Share

Basic earnings per ordinary share for the years ended December 31, 2017 and 2016, is as follows:

	2017	2016
Profit attributable to the ordinary equity holders ¹	₩ 316,067 million	₩ 538,372 million
Weighted average number of ordinary shares outstanding ²	<u>33,268,604 shares</u>	<u>33,268,604 shares</u>
Earnings per share	<u>₩ 9,500</u>	<u>₩ 16,183</u>

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, 2017 and 2016, is 33,268,604 shares and there has been no change for the year ended December 31, 2017.

38. Dividends

The dividends paid in 2017 and 2016 were ₩ 166,343 million (₩5,000 per share) and ₩ 116,440 million (₩3,500 per share), respectively.

A dividend in respect of the year ended December 31, 2017, of ₩ 5,000 per share, amounting to a total dividend of ₩ 166,343 million, is to be proposed to shareholders at the annual general meeting on March 23, 2018. These separate financial statements do not reflect this dividend payable.

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39. Cash Generated from Operations

(a) Cash generated from operations

Details of cash generated from operations for the years ended December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Profit before income tax	₩	285,263	₩	625,240
Adjustments for				
Interest income and expense, net		72,876		83,104
Gain (Loss) on foreign currency translation, net		(27,628)		992
Gain (Loss) on valuation of derivatives, net		(25,279)		15,994
Depreciation and amortization		288,255		261,496
Loss (Gain) on disposal of property, plant, equipment, intangible assets, and investment property		9,945		2,191
Impairment loss on property, plant, equipment, intangible assets, and investment property		106,739		25,984
Bad debt expense and other bad debt expense		91,690		41,374
Loss on valuation of inventories and loss on disposal		20,904		(9,040)
Gain (Loss) on disposal of financial assets, net		(328)		(10,541)
Impairment loss on financial assets		17,052		1,492
Impairment loss on investment in subsidiaries and associates		64,449		29,212
Dividend income		(192,049)		(189,890)
Post-employment benefits		45,985		46,407
Additional provisions		70,505		36,234
Loss on disposal of trade receivables		1,166		1,545
Long-term employee benefits		923		1,660
Others		(4,830)		1,047
Changes in operating assets and liabilities				
Decrease (increase) in trade receivables		(276,379)		75,640
Decrease (increase) in inventories		(56,613)		4,613
Increase in other receivables		(32,101)		(27,915)
Increase in due from customers for contract work		(25,768)		(35,898)
Decrease in other financial assets		4,638		1,675
Decrease (increase) in other assets		(21,022)		2,747
Decrease in Currency translation differences		(1,912)		(342)
Increase in trade payables		301,763		47,234
Increase (decrease) in other payables		(15,046)		220,223
Decrease in due to customers for contract work		(21,112)		(20,154)
Decrease in other financial liabilities		(29,505)		(22,808)
Payment of warranty expenses		(15,520)		(19,112)
Payment of defined benefits		(3,475)		(4,873)
Contributions of plan assets		(46,300)		(31,100)
Cash generated from operations	₩	<u>587,286</u>	₩	<u>1,154,431</u>

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(b) Changes in liabilities arising from financial activities

(in millions of Korean won)

	2017				
	Short-term borrowings	Liquidity long-term debt	Debenture	Long-term borrowings	Totals
Beginning balance	₩ 479,822	₩ 769,074	₩ 758,857	₩ 310,351	₩ 2,318,104
Cash flow	281,027	(472,752)	-	60,000	(131,725)
Foreign exchange gain / loss	(27,510)	(16,467)	-	(13,556)	(57,533)
Amortization discount on debentures	-	-	977	-	977
Reclassification of the current portion	-	449,129	(291,104)	(158,025)	-
Maturity extension	-	(143,862)	-	143,862	-
Ending balance	₩ 733,339	₩ 585,122	₩ 468,730	₩ 342,632	₩ 2,129,823

(C) Non-cash transactions

(in millions of Korean won)

	2017	2016
Reclassification of the current portion of long-term trade receivables	₩ 1,802	₩ 1,221
Change in advance payments related to the acquisition of property, plant and equipment	2,687	(1,422)
Change in non-trade payables related to the acquisition of property, plant and equipment	14,879	(30,363)
Change in other receivables related to the disposal of property, plant and equipment	877	(111)
Change in other receivables related to the disposal of intangible asset	-	(1,258)
Transferred to property, plant and equipment from machinery-in-transit	73,164	78,198
Transferred to property, plant and equipment from construction-in-progress	279,768	253,486
Reclassification of property, plant and equipment into intangible asset	1,140	448
Reclassification of inventories (sites) into investment property	26,421	15,698
Reclassification of trade receivables into available-for-sale financial assets	14	206
Conversion of loans into investment in subsidiary by debt-for-equity swap	-	26,910
Reclassification of the current portion of long-term financial instruments	-	2,304
Reclassification of the current portion of long-term deposits received	14,748	14,480
Reclassification of the current portion of debentures	291,104	140,000
Reclassification of the current portion of long-term borrowings	158,025	612,727
Reclassification of the current portion of long-term other payable	-	3,634

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40. Contingencies and Commitments

(a) Notes and others provided as collaterals

The Company provided 6 notes and 3 checks as collaterals in relation to borrowings and commitments as at December 31, 2017, to the customers and others.

(b) Commitment contracted with financial institutions

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 ₩ 2,564,785 million. Also, the Company entered into trade receivables discount agreements with a limit of ₩ 1,393,106 million as at December 31, 2017.

(c) Guarantees provided for others

The Company has provided payment guarantees for financial institutions in relation to the purchasing house funds amounting to ₩ 363,389 million (2016: ₩ 232,261 million) as at December 31, 2017. Also, the limits of the related guarantees are ₩ 572,710 million (2016: ₩ 458,512 million) as at December 31, 2017. Further, as at December 2017, the Company provides joint guarantees of performing construction contracts amounting ₩ 3,062,719 million (2016: ₩ 3,195,726 million) in relation to the guarantees of housing distribution which developers obtained from Korea Housing & Urban Guarantee Co., Ltd.

The Company has provided a fund supplemental commitment amounting to ₩ 247,400 million (2016: ₩ 364,400 million) to Grand Sixth Ltd. and others in relation to renewable energy business such as the solar power plant project in Romania as at December 31, 2017, and recognized ₩ 98,903 million as an expense, regarding this agreement. Meanwhile, the Company has loaned ₩ 125,853 million for the execution of the fund supplement agreements related to the project, and an additional loan amounting to ₩ 209,570 million has been provided after the reporting period (Note 11). In addition, the Company has been asked to take over debts amounting to ₩ 8,804 million due to the failure of completion guarantee regarding the UK biomass business, and regarding this event, a lawsuit is proceeding.

Also the Company has provided guarantees for related parties amounting to ₩ 2,631,383 million (2016: ₩ 1,845,084 million) (Note 21).

The Company entered into the agreements with Hanwha Life Insurance Co., Ltd. and seven 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 ₩ 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.

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(d) Guarantees provided in relation to project financing

Details of guarantees provided for the borrowings of developers as at December 31, 2017 and 2016, are as follows:

<i>(in millions of Korean won)</i>	2017		2016	
Liabilities take-over/fund supplemental commitments	₩	350,391	₩	292,000
Conditional liabilities take-over		665,000		569,000
Completion guarantee		3,973,300		3,128,000
	₩	<u>4,988,691</u>	₩	<u>3,989,000</u>

Details of guarantees provided by the Company in relation to project financing as at December 31, 2017, are as follows:

(in millions of Korean won)

Construction	Guarantee limit		Carrying amount of borrowings		Details of guarantees	Guarantee period
Gwangju Taejeondong APT	₩	132,000	₩	132,000	Liabilities take-over commitments	2017.04~2018.04
Gongdeok complex facility ¹		170,000		165,000	Fund supplemental commitments	2017.11~2022.11
Private Investment Project for Suncheon Resource Circulation Center		48,391		39,391	Joint Guarantee & Fund supplemental commitments	2015.06~2028.12
	₩	<u>350,391</u>	₩	<u>336,391</u>		

¹ The Company has an obligation to provide a cash deficiency support agreement for Gongdeok Gyeongwoo Development Corporation, one of the subsidiaries (Note 21).

The Company provides conditional liabilities take-over agreements amounting to ₩ 454,200 million in for Urban Redevelopment Projects on the 4th Yongsan Region, Seoul and other 5 construction projects with a limit of ₩ 665,000 million. The Company has committed to implement its duties of completion guarantee for construction of Hoehyeon Subway Station Complex and other 28 projects (in case of failing to complete the obligations within the period of completion guarantee, the secured liability is taken over), and the related liabilities are amounting ₩ 2,228,602 million and the guarantee limit is ₩ 3,973,300 million.

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(e) Guarantees provided by others

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

(in millions of Korean won)

Guarantor	Guaranteed amount	Details of guarantees
Construction Guarantee Cooperative and others	₩ 1,895,968	Payment guarantee related to construction
The Export-Import Bank of Korea and others	748,605	Performance guarantees and others
	₩ 2,644,573	

(f) Assets pledged as collaterals

Details of assets pledged as collaterals for the Company's borrowings and others as at December 31, 2017, are as follows:

(in millions of Korean won)

Secured assets	Collaterals Amount	Executed amount of agreement (Including borrowings)	Provided by
Property, plant and equipment	₩ 277,876	₩ 157,018	Woori Bank
Available-for-sale financial assets ¹	135,141	-	Committee of Creditor Banks of Chin Hung International Inc.
Available-for-sale financial assets	3,504	-	Machinery financial cooperative
Available-for-sale financial assets	4,373	-	Construction Guarantee cooperative
Property, plant and equipment	1,482,061	408,517	Korea Development Bank and others
Property, plant and equipment ²	10,000	-	JeonJu City
Trade receivables	249,445	249,445	Woori Bank and others
	₩ 2,162,400	₩ 814,980	

¹ The equity shares of Chin Hung International Inc. amounting to ₩ 135,141 million have been provided as collateral to the Committee of Creditor Banks of Chin Hung International Inc. in accordance with the special agreement for plans for normalization of the business of Chin Hung International Inc. (Notes 12 and 21).

² Certain amounts of the property, plant and equipment are provided as collaterals to JeonJu city for receiving government grants.

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As at December 31, 2017, the Company has pledged its shares of Somesevit Corporation (investment in subsidiaries with no book amount) as collateral for borrowings of Somesevit Corporation amount to ₩ 56,000 million. And the Company has pledged its shares of Gongdeok Gyeongwoo Development Corporation (investment in subsidiaries with the book amount of ₩ 974 million) as collateral for borrowings of Gongdeok Gyeongwoo Development Corporation amount to ₩ 165,000 million. Also, the Company has pledged its shares of Pyeongchang Wind Power Co., Ltd. (investment in associates with the book amount of ₩ 6,510 million) as collateral for borrowings of Pyeongchang Wind Power Co., Ltd. amount to ₩ 59,407 million. In addition, certain amounts of the property, plant and equipment are provided as collaterals to Toyota Motor Korea Co., Ltd. in relation to the inventory financing of Hyosung Toyota Corp. (Notes 20 and 21). Also, the Company has pledged its shares of Soonchon Eco Green Corporation (investment in associates with no book amount) as collateral for borrowings of Soonchon Eco Green Corporation amount of ₩ 39,391 million.

(g) Pending lawsuits

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

	Numbers of lawsuits	Aggregate amount	Details of lawsuit
Lawsuits in which the Company is the plaintiff	15	₩ 29,127	Claim against for collection of subcontract payment and others
Lawsuits in which the Company is the defendant	39	₩ 68,612	Damage suit and others

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 is reflected in the accompanying financial statements.

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41. Merger

In order to maximize shareholder value through business integration synergy, such as management efficiency improvement through merging, on April 1, 2017, the Company merged Doomi Construction Co., Ltd. and Hyosung Engineering Co., Ltd., one of subsidiaries, through a small-scale merger. These mergers are accounted for as a business combination under a common control, so the book amount of the merged corporations has been transferred to the Company, and the details of transferred assets and liabilities are as follows:

<i>(in millions of Korean won)</i>	Amount
Book amount of Shares of Doomi Construction Co., Ltd. Before Business Combination	₩ -
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	₩ 8,060
Trade and other receivables	2,546
Long-term trade and other receivables	1,586
Other current assets	392
Inventories	562
Property, plant and equipment	255,718
Other non-current assets	1,628
Trade and other payables	(123,648)
Long-term trade and other payables	(168,661)
Other Financial Liabilities	(3)
Other non-current provisions	(103)
Post-employment benefit obligation	(654)
Other non-current liabilities	(26,964)
Book amount of net assets	₩ (49,541)
Difference	₩ (49,541)
Recognized as additional paid in capital	₩ (49,541)

Only the profit or loss of Doomi Construction Co., Ltd. (the merged company) attributable to the period after the merger date was included in the financial performance of the Company. Total sales of Doomi Construction Co., Ltd. after the merger date recognized at the current reporting period amount to ₩ 11,017 million.

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<i>(in millions of Korean won)</i>	Amount	
Book amount of Shares of Hyosung Engineering Co., Ltd.		
Before Business Combination		
Investment in subsidiaries	₩	-
Available-for-sale financial assets		34,969
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	₩	14,557
Trade and other receivables		5,917
Long-term trade and other receivables		1,477
Due from Customers		4,757
Other financial assets		208
Other current assets		826
Current tax assets		466
Property, plant and equipment		16
Intangible Assets		36
Other non-current assets		2,943
Available-for-sale financial assets		1,341
Trade and other payables		(18,780)
Other non-current provisions		(1,578)
Current tax liabilities		(590)
Post-employment benefit obligation:		(1,050)
Due to customers		(5,836)
Book amount of net assets	₩	4,710
Difference	₩	(30,259)
Recognized as additional paid in capital		(30,259)

Only the profit or loss of Hyosung Engineering Co., Ltd. (the merged company) attributable to the period after the merger date was included in the financial performance of the Company. Total sales of Hyosung Engineering Co., Ltd. after the merger date recognized at the current reporting period amount to ₩ 44,728 million.

Hyosung Corporation

Notes to the Separate Financial Statements

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42. Restatement of the Prior Year Financial Statements

The Company has restated its comparative financial statements to correct the recognition error of impairment loss on available-for-sale financial assets for the year ended December 31, 2013. As a result, the retained earnings and other comprehensive income as at December 31, 2016 have decreased and increased respectively by ₩ 24,403 million and there is no impact on the prior year's separate statement of profit or loss.

43. Events after the Reporting Period

(a) Split

In order to have competitiveness of each business division and to strengthen its expertise, the Company is divided into the textile and trading business, the heavy industry and construction business, the industrial materials business and the chemical business to establish new corporations. The Company will operate a business division for the purpose of controlling shareholdings and investing. The due date for the division is June 1, 2018, and the method will be a spin-off. After the split, the existing company (Hyosung Co., Ltd.) will remain as a listed corporation, and the newly established split company will also be established as a listed corporation.

(b) Establishment of New Corporation

The Company decided to establish a new corporation in Vietnam (amount to be invested: ₩ 196,164 million) in order to grow as a Global PP Maker through the establishment of a PP production system at the Board meeting held on February 6, 2018.

**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, 2017. 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, 2017, the Company's IACS has been effectively designed and is operating as at December 31, 2017, 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, 2017, and we did not review management's assessment of its IACS subsequent to December 31, 2017. 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.

Samil PricewaterhouseCoopers

February 26, 2018

Report on the Operations of the Internal Accounting Control System

To the Board of Directors and Audit committee of
Hyosung Corporation

I, as the Internal Accounting Control Officer (“IACO”) 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, 2017.

The Company’s management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial reporting and the preparation of financial statements for external purposes. I, as the IACO, applied the IACS standard for the assessment of design and operations of the IACS.

Based on the assessment on the operations of the IACS, the Company’s IACS has been effectively designed and is operating as at December 31, 2017, 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.

February 6, 2018

Kyu-Young Lee, Chief Executive Officer

Gwang-oh Kim, Internal Accounting Control Officer