

2018

Financial Statements

CREATIVITY INSPIRED

HYOSUNG CHEMICAL

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Independent Auditor's Report

To the Board of Directors and Shareholders of Hyosung Chemical Corporation

Opinion

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

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

Basis for Opinion

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

Emphasis of Matters

We draw attention to Note 37 and Note 38 to the separate financial statements. Our opinion is not modified in respect of these matters.

(1) Uncertainty in connection with pending lawsuit

As described in Note 37 to the separate financial statements, the Company is sued by UOP and the outcome of the lawsuit cannot be estimated.

(2) Events after the reporting period

As described in Note 38 to the separate financial statements, the Company made an additional investment of ₩ 78,300 million to Hyosung Vina Chemicals Co., Ltd., 100% owned subsidiary, in order to grow as a Global PP Maker on January 30, 2019.

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

Independent Auditor's Report

Statements

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

In preparing the separate financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

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

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

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

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

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

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Dal-Young Chung.

February 28, 2019



Seoul, Korea

This report is effective as of February 28, 2019, the auditors' report date. Accordingly, certain subsequent events or circumstances may have occurred between the auditors' report date and the time this audit report is read. Such events and circumstances could significantly affect the accompanying separate financial statements and may result in modifications to this report.

Hyosung Chemical Corporation

Separate Statements of Financial Position

As at December 31, 2018
(Korean Won)

	2018
ASSETS	
Current assets :	
Cash and cash equivalents	2,189,800,250
Trade and other receivables	175,144,873,934
Other financial assets	3,015,347,825
Other current assets	5,555,245,112
Inventories	125,294,525,119
Total current assets	311,199,792,240
Non-current assets :	
Long-term trade and other receivables	4,710,258,452
Property, plant and equipment	1,056,459,645,109
Intangible assets	14,230,039,913
Investments in subsidiaries and associates	201,325,571,495
Other non-current financial assets	2,648,654,952
Other non-current assets	877,899,278
Deferred tax assets	8,298,075,249
Total other non-current assets	1,288,550,144,448
Total assets	1,599,749,936,688
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities :	
Trade and other payables	229,125,602,036
Borrowings	399,745,562,796
Current tax liabilities	6,267,451,248
Other current liabilities	4,169,927,819
Total current liabilities	639,308,543,899
Non-current liabilities :	
Long-term trade and other payables	12,054,878,779
Long-term borrowings	582,939,999,868
Net defined benefit liabilities	1,510,207,937
Other non-current liabilities	1,864,255,744
Total non-current liabilities	598,369,342,328
Total liabilities	1,237,677,886,227
Shareholders' equity :	
Capital	15,950,630,000
Capital surplus	327,697,938,702
Retained earnings	20,266,922,964
Other components of equity	(1,843,441,205)
Total shareholders' equity	362,072,050,461
Total liabilities and shareholders' equity	1,599,749,936,688

Hyosung Chemical Corporation

Separate Statements of Income

For the Period from June 1, 2018 to December 31, 2018
(Korean Won)

	2018
Revenue	1,116,772,144,102
Cost of sales	1,003,310,624,048
Gross profit	113,461,520,054
Selling, general and administrative expenses	36,041,843,460
Research and development expenses	13,566,269,569
Operating income	63,853,407,025
Non-operating income and expense:	
Other income	2,353,773,317
Other expenses	(4,468,894,442)
Finance income	20,780,592,153
Finance expenses	(49,620,942,898)
Impairment loss from subsidiaries and associates	(4,046,066,710)
	(35,001,538,580)
Net income before income tax	28,851,868,445
Income tax expense	6,574,785,304
Net income	22,277,083,141
Earnings per share:	
Basic earnings per share	7,004

Separate Statements of Comprehensive Income

For the Period from June 1, 2018 to December 31, 2018
(Korean Won)

	2018
Net profit for the period	22,277,083,141
Other comprehensive income (loss) for the period, net of income tax	
Items that will not be reclassified subsequently to profit or loss :	
Remeasurements of net defined benefit liability	(2,010,160,177)
Items that will be reclassified subsequently to profit or loss :	-
	(2,010,160,177)
Total comprehensive income for the period	20,266,922,964

Hyosung Chemical Corporation

Separate Statements of Changes in Equity

For the Period from June 1, 2018 to December 31, 2018
(Korean Won)

	Capital	Capital surplus	Retained earnings	Other components of equity	Total equity
Balance at June 1, 2018	15,950,630,000	327,697,938,702	-	-	343,648,568,702
Total comprehensive income for the period					
Net profit for the period	-	-	22,277,083,141	-	22,277,083,141
Remeasurements of net defined benefit liability	-	-	(2,010,160,177)	-	(2,010,160,177)
Treasury stocks	-	-	-	(1,843,441,205)	(1,843,441,205)
Balance at December 31, 2018	15,950,630,000	327,697,938,702	20,266,922,964	(1,843,441,205)	362,072,050,461

Separate Statements of Cash Flows

For the Period from June 1, 2018 to December 31, 2018
(Korean Won)

	2018
Cash flows from operating activities :	
Cash generated from operation activities	105,011,820,892
Income tax paid	(4,790,669,894)
Interest paid	(20,689,961,633)
Interest received	73,257,257
Net cash provided by operating activities	79,604,446,622
Cash Flows from Investing Activities :	
Collection in long-term loans	49,053,332
Proceeds from sales of property, plant and equipment	9,000
Purchase of long-term loans	(78,085,001)
Increase of long-term deposit	(992,969,700)
Acquisition of property, plant and equipment	(22,605,229,215)
Acquisition of intangible assets	(139,014,081)
Acquisition of long-term financial assets	(15,500,000)
Net cash used in investing activities	(23,781,735,665)
Cash Flows from Financing Activities	
Proceeds of short-term borrowings	1,840,639,534,612
Proceeds of long-term borrowings	61,000,000,000
Repayments of bonds	(29,435,100,000)
Repayments of short-term borrowings	(1,972,770,285,768)
Repayments of long-term borrowings	(32,459,600,000)
Acquisition of treasury stocks	(1,843,441,205)
Net cash used in financing activities	(134,868,892,361)
Net decrease in cash and cash equivalents	(79,046,181,404)
Cash and cash equivalents at beginning of the period	81,235,981,654
Cash and cash equivalents at end of the period	2,189,800,250

Independent Auditor's Report

To the Board of Directors and Shareholders of Hyosung Chemical Corporation

Opinion

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

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

Basis for Opinion

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

Emphasis of Matters

We draw attention to Note 35 and Note 37 to the consolidated financial statements. Our opinion is not modified in respect of these matters.

(1) Uncertainty in connection with pending lawsuit

As described in Note 35 to the consolidated financial statements, the Group is sued by UOP and the outcome of the lawsuit cannot be estimated.

(2) Events after the reporting period

As described in Note 37 to the consolidated financial statements, the Group made an additional investment of ₩ 78,300 million to Hyosung Vina Chemicals Co., Ltd., 100% owned subsidiary, in order to grow as a Global PP Maker on January 30, 2019.

Independent Auditor's Report

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations.

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

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

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

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

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

the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Dal-Young Chung.

February 28, 2019



Seoul, Korea

This report is effective as of February 28, 2019, the auditors' report date. Accordingly, certain subsequent events or circumstances may have occurred between the auditors' report date and the time this audit report is read. Such events and circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to this report.

Hyosung Chemical Corporation and Subsidiaries

Consolidated Statements of Financial Position

As of December 31, 2018
(Korean Won)

	2018
ASSETS	
Current assets :	
Cash and cash equivalents	79,257,821,592
Trade and other receivables	184,669,279,665
Other financial assets	3,015,347,825
Other current assets	46,085,921,955
Inventories	125,294,525,119
Total current assets	438,322,896,156
Non-current assets :	
Long-term trade and other receivables	4,710,258,452
Property, plant and equipment	1,117,555,202,137
Intangible assets	74,144,821,677
Investments in associates	6,691,571,371
Other non-current financial assets	2,648,654,952
Other non-current assets	877,899,278
Deferred tax assets	8,298,075,249
Total other non-current assets	1,214,926,483,116
Total assets	1,653,249,379,272
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities :	
Trade and other payables	275,675,409,413
Borrowings	399,745,562,796
Current tax liabilities	6,388,339,437
Other current liabilities	4,169,927,819
Total current liabilities	685,979,239,465
Non-current liabilities :	
Long-term trade and other payables	12,054,878,779
Long-term borrowings	582,939,999,868
Net defined benefit liabilities	1,510,207,937
Deferred tax liabilities	1,652,556,809
Other non-current liabilities	1,864,255,744
Total non-current liabilities	600,021,899,137
Total liabilities	1,286,001,138,602
Shareholders' equity :	
Equity attributable to owners of the Parent Company	
Capital	15,950,630,000
Capital surplus	327,697,938,702
Retained earnings	18,284,191,681
Other components of equity	5,315,480,287
Non-controlling interest	-
Total shareholders' equity	367,248,240,670
Total liabilities and shareholders' equity	1,653,249,379,272

Hyosung Chemical Corporation and Subsidiaries

Consolidated Statements of Income

For the Period from June 1, 2018 to December 31, 2018
(Korean Won)

	2018
Revenue	1,116,772,144,102
Cost of sales	1,002,169,250,785
Gross profit	114,602,893,317
Selling, general and administrative expenses	36,041,843,460
Research and development expenses	13,566,269,569
Operating income	64,994,780,288
Non-operating income and expense:	
Other income	2,963,332,933
Other expenses	(4,468,896,853)
Financial income	20,903,537,062
Financial expenses	(50,024,107,392)
Share of loss of associates accounted for using the equity method, net	(6,950,682,719)
	(37,576,816,969)
Net income before income tax	27,417,963,319
Income tax expense	7,023,102,648
Net income	20,394,860,671
Profit is attributable to:	
Owners of the Parent Company	20,394,860,671
Non-controlling interests	-
Earnings per share:	
Basic earnings per share	6,412

Hyosung Chemical Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income

For the Period from June 1, 2018 to December 31, 2018
(Korean Won)

	2018
Net profit for the period	20,394,860,671
Other comprehensive income (loss) for the period, net of income tax	
Items that will not be reclassified subsequently to profit or loss :	
Remeasurements of net defined benefit liability	(2,010,160,177)
Share of remeasurements of net defined benefit liabilities of associates	(100,508,813)
Items that will be reclassified subsequently to profit or loss :	
Share of other comprehensive income of associates	(17,413,866)
Currency translation differences	5,018,957,728
	2,890,874,872
Total comprehensive income for the period	23,285,735,543
Total comprehensive income for the period is attributable to:	
Owners of the Parent Company	23,285,735,543
Non-controlling interest	-

Hyosung Chemical Corporation and Subsidiaries

Consolidated Statements of Changes in Equity

For the Period from June 1, 2018 to December 31, 2018
(Korean Won)

	Capital	Capital surplus	Retained earnings	Other components of equity	Total	Non-controlling interest	Total equity
Balance at June 1, 2018	15,950,630,000	327,697,938,702	-	2,157,377,630	345,805,946,332	-	345,805,946,332
Total comprehensive income for the period							
Net profit for the period	-	-	20,394,860,671	-	20,394,860,671	-	20,394,860,671
Remeasurements of net defined benefit liability	-	-	(2,010,160,177)	-	(2,010,160,177)	-	(2,010,160,177)
Share of remeasurements of net defined benefit liabilities of associates	-	-	(100,508,813)	-	(100,508,813)	-	(100,508,813)
Valuation of available-for-sale financial assets	-	-	-	-	-	-	-
Investment valuation of associates	-	-	-	(17,413,866)	(17,413,866)	-	(17,413,866)
Treasury stocks	-	-	-	(1,843,441,205)	(1,843,441,205)	-	(1,843,441,205)
Currency translation differences	-	-	-	5,018,957,728	5,018,957,728	-	5,018,957,728
Balance at December 31, 2018	15,950,630,000	327,697,938,702	18,284,191,681	5,315,480,287	367,248,240,670	-	367,248,240,670

Hyosung Chemical Corporation and Subsidiaries

Consolidated Statements of Cash Flows

For the Period from June 1, 2018 to December 31, 2018
(Korean Won)

	2018
Cash flows from operating activities :	
Cash generated from operation activities	102,175,350,412
Income tax paid	(4,790,669,894)
Interest paid	(20,689,961,633)
Interest received	73,345,204
Net cash provided by operating activities	76,768,064,089
Cash Flows from Investing Activities :	
Collection in other long-term receivables	49,053,332
Proceeds from sales of property, plant and equipment	9,000
Acquisition of other receivables	(100,251,063)
Acquisition of other long-term receivables	(1,071,054,701)
Acquisition of other long-term financial assets	(15,500,000)
Acquisition of property, plant and equipment	(83,569,095,371)
Acquisition of intangible assets	(60,472,506,370)
Net cash used in investing activities	(145,179,345,173)
Cash Flows from Financing Activities :	
Proceeds of short-term borrowings	1,840,639,534,612
Proceeds of long-term borrowings and bonds	61,000,000,000
Repayments of short-term borrowings	(1,972,770,285,768)
Repayments of long-term borrowings and bonds	(61,894,700,000)
Acquisition of treasury stocks	(1,843,441,205)
Net cash used in financing activities	(134,868,892,361)
Effects of exchange rate changes on cash and cash equivalents	6,668,013,383
Net decrease in cash and cash equivalents	(196,612,160,062)
Cash and cash equivalents at beginning of the period	275,869,981,654
Cash and cash equivalents at end of the period	79,257,821,592

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