# Yujin-SMRC Automotive Techno Corporation

Financial statements
for the years ended December 31, 2018 and 2017
with the independent auditor's report

유진에스엠알시

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# Independent auditor's report

**The Shareholders and Board of Directors**
**Yujin-SMRC Automotive Techno Corporation**

## Opinion

We have audited the financial statements of Yujin-SMRC Automotive Techno Corporation (the Company), which comprise the statements of financial position as of December 31, 2018 and 2017, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Company as of December 31, 2018 and 2017and its financial performance and its cash flows for the years then ended in accordance with Korean International Financial Reporting Standards(KIFRS).

## Basis for opinion

We conducted our audit in accordance with Korean Auditing Standards (KGAAS). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the 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 financial statements in the Republic of 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

## Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with KIFRS, 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

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

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 KGAAS 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 financial statements.

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

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

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

Ernst & Young Han Young

Ernst & Young Han Young

*[March 15, 2019]*

| |
|---|
| This audit report is effective as of [March 15, 2019], the independent auditor's report date. Accordingly, certain material subsequent events or circumstances may have occurred during the period from the auditor's report date to the time this report is used. Such events and circumstances could significantly affect the accompanying financial statements and may result in modifications to this report. |

# Yujin-SMRC Automotive Techno Corporation

Financial statements
for the years ended December 31, 2018 and 2017

"The accompanying financial statements, including all footnotes and disclosures, have been prepared by, and are the responsibility of the Company."

Chan Sung Moon
Chief Executive Officer
Yujin-SMRC Automotive Techno Corporation

**Yujin SMRC Automotive Techno Corporation**
**Statements of financial position**
**as of December 31, 2018 and 2017**
(Korean won)

| | Notes | | 2018 | | 2017 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets:** | | | | | |
| Cash and cash equivalents | 6,27,28,29 | ₩ | 8,776,256,839 | ₩ | 15,793,716,179 |
| Trade receivables, net | 7,26,27,28,29 | | 25,533,936,566 | | 35,753,497,683 |
| Other receivables, net | 7,26,27,28,29 | | 5,130,405,366 | | 2,658,751,331 |
| Other current financial assets | 9,29 | | 20,340,000 | | - |
| Inventories | 10 | | 1,261,580,383 | | 1,578,933,066 |
| Current tax assets | 24 | | 147,227,005 | | - |
| Other current assets | 8 | | 9,790,403,490 | | 1,398,735,065 |
| | | | 50,660,149,649 | | 57,183,633,324 |
| **Non-current assets:** | | | | | |
| Other non-current financial assets | 9,28,29 | | 12,420,000 | | 31,240,000 |
| Property, plant and equipment, net | 11 | | 20,793,434,409 | | 19,718,717,490 |
| Intangible assets | 12 | | 679,298,758 | | 679,298,758 |
| Other receivables | 7,26,27,28,29 | | 2,627,103,170 | | 2,395,643,965 |
| | | | 24,112,256,337 | | 22,824,900,213 |
| **Total assets** | | ₩ | **74,772,405,986** | ₩ | **80,008,533,537** |
| **Liabilities** | | | | | |
| **Current liabilities:** | | | | | |
| Trade payables | 26,27,28,29 | | 16,511,985,172 | | 26,210,141,789 |
| Other payables | 13,26,27,28,29 | | 10,339,241,940 | | 7,065,970,527 |
| Other current liabilities | 8 | | 13,479,860,508 | | 3,841,251,010 |
| Current income tax liabilities | 23 | | 178,620,703 | | 2,572,846,557 |
| | | | 40,509,708,323 | | 39,690,209,883 |
| **Non-current liabilities:** | | | | | |
| Long-term borrowings | 14,26 | | 2,122,222,220 | | 2,053,763,403 |
| Defined benefit liabilities | 15 | | 904,851,656 | | 73,557,323 |
| Other payables | 13,27,28,29 | | 88,091,739 | | 70,352,727 |
| Provision for product warranties | 16 | | 172,066,289 | | 174,497,704 |
| Deferred tax liability | 23 | | 259,659,378 | | 720,167,771 |
| | | | 3,546,891,282 | | 3,092,338,928 |
| **Total liabilities** | | ₩ | **44,056,599,605** | ₩ | **42,782,548,811** |
| **Equity** | | | | | |
| Issued capital | 17 | | 8,498,405,000 | | 8,498,405,000 |
| Retained earnings | 17 | | 22,217,401,381 | | 28,727,579,726 |
| **Total equity** | | ₩ | **30,715,806,381** | ₩ | **37,225,984,726** |
| **Total liabilities and equity** | | ₩ | **74,772,405,986** | ₩ | **80,008,533,537** |

The accompanying notes are an integral part of the financial statements.

**Yujin SMRC Automotive Techno Corporation**
**Statements of profit or loss and other comprehensive income**
**for the years ended December 31, 2018 and 2017**

(Korean won)

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Revenue | 18,26 | ₩ 141,514,946,093 | ₩ 175,679,690,399 |
| Cost of sales | 22,27 | 130,322,253,477 | 152,777,881,280 |
| **Gross profit** | | **11,192,692,616** | **22,901,809,119** |
| Selling and administrative expenses | 19,22 | 7,863,166,803 | 9,251,421,207 |
| **Operating profit** | | **3,329,525,813** | **13,650,387,912** |
| Other income (expenses): | | | |
| Other operating income | 21,26,28 | 4,107,752,723 | 5,083,286,579 |
| Other operating expenses | 21,28 | (354,065,570) | (505,879,466) |
| Finance income | 20,26,28 | 247,432,630 | 229,348,472 |
| Finance expenses | 20,26,28 | (85,843,264) | (70,556,106) |
| | | 3,915,276,519 | 4,736,199,479 |
| **Profit before income taxes** | | **7,244,802,332** | **18,386,587,391** |
| Income tax expenses | 23 | 1,603,828,321 | 3,998,312,014 |
| **Net profit for the year** | | **₩ 5,640,974,011** | **₩ 14,388,275,377** |
| **Other comprehensive income** | | | |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | | |
| Re-measurement loss on defined benefit plans | | (873,980,728) | (64,545,046) |
| Income tax effect | 23 | 192,275,760 | 14,199,910 |
| | | (681,704,968) | (50,345,136) |
| **Other comprehensive loss** | | **(681,704,968)** | **(50,345,136)** |
| **Total comprehensive income for the year** | | **₩ 4,959,269,043** | **₩ 14,337,930,241** |
| **Earnings per share** | 24 | | |
| Basic and diluted earnings per share | | ₩ 3,319 | ₩ 8,465 |

The accompanying notes are an integral part of the financial statements.

**Yujin SMRC Automotive Techno Corporation**
**Statements of changes in equity**
**for the years ended December 31, 2018 and 2017**

(Korean won)

| | | Issued capital | | Retained earnings | | Total equity |
|---|---|---|---|---|---|---|
| **As of January 1, 2017** | ₩ | **8,498,405,000** | ₩ | **26,544,068,316** | ₩ | **35,042,473,316** |
| Net profit for the year | | - | | 14,388,275,377 | | 14,388,275,377 |
| Re-measurement loss on defined benefit plans | | - | | (50,345,136) | | (50,345,136) |
| Total comprehensive income | | - | | 14,337,930,241 | | 14,337,930,241 |
| Dividends | | - | | (12,154,418,831) | | (12,154,418,831) |
| **As of December 31, 2017** | ₩ | **8,498,405,000** | ₩ | **28,727,579,726** | ₩ | **37,225,984,726** |
| **As of January 1, 2018** | ₩ | **8,498,405,000** | ₩ | **28,727,579,726** | ₩ | **37,225,984,726** |
| Net profit for the year | | - | | 5,640,974,011 | | 5,640,974,011 |
| Re-measurement loss on defined benefit plans | | - | | (681,704,968) | | (681,704,968) |
| Total comprehensive income | | - | | 4,959,269,043 | | 4,959,269,043 |
| Dividends | | - | | (11,469,447,388) | | (11,469,447,388) |
| **As of December 31, 2018** | ₩ | **8,498,405,000** | ₩ | **22,217,401,381** | ₩ | **30,715,806,381** |

The accompanying notes are an integral part of the financial statements.

**Yujin SMRC Automotive Techno Corporation**
**Statements of cash flows**
**for the years ended December 31, 2018 and 2017**

(Korean won)

| | 2018 | 2017 |
|---|---|---|
| **Net activitives** | | |
| Cash flows from operating activities (Note 30) | ₩ 10,404,238,420 | ₩ 17,594,281,672 |
| Interest received | 195,472,155 | 181,656,449 |
| Interest paid | (70,556,106) | - |
| Income tax paid | (4,413,513,813) | (5,668,041,992) |
| **Net cash provided by operating activities** | **6,115,640,656** | **12,107,896,129** |
| **Investing activities** | | |
| Proceeds from disposal of property, plant and equipment | 39,181,817 | 13,454,546 |
| Decrease in other receivables | 30,000,000 | - |
| Purchase of property, plant and equipment | (1,650,364,425) | (3,548,120,510) |
| Purchase of intangible assets | - | (252,309,290) |
| Increase in other receivables | (80,950,000) | (211,912,830) |
| Increase in other financial assets | (1,520,000) | (1,445,000) |
| Increase in long-term loans | - | (2,328,000,000) |
| **Net cash used in investing activities** | **(1,663,652,608)** | **(6,328,333,084)** |
| **Financing activities** | | |
| Increase in long-term borrowings | - | 2,159,255,000 |
| Dividends paid | (11,469,447,388) | (12,154,418,831) |
| **Net cash used in financing activities** | **(11,469,447,388)** | **(9,995,163,831)** |
| **Decrease in cash and cash equivalents** | **(7,017,459,340)** | **(4,215,600,786)** |
| Cash and cash equivalents on January 1 | 15,793,716,179 | 20,009,316,965 |
| **Cash and cash equivalents on December 31** | **₩ 8,776,256,839** | **₩ 15,793,716,179** |

The accompanying notes are an integral part of the financial statements.

## 1. Corporate information

### 1.1 Summary of the Company

Yujin-SMRC Automotive Techno Corporation (the “Company”) was incorporated on May 1, 1997 under the Commercial Code of the Republic of Korea to manufacture and sell instrument panel pads and other related products. The Company was registered as a foreign invested enterprise on January 11, 2000. On August 1, 2018, the Company changed its legal name from Visteon Interiors Korea Limited to Yujin-SMRC Automotive Techno Corporation.

The Company’s initial issued capital amounted to ₩3,650,000 thousand at the time of incorporation. As of December 31, 2018, issued capital amounts to ₩8,498,405 thousand after the issuance of stock amounting to ₩74,340 thousand in 1999 and ₩4,774,065 thousand in 2008.

As the majority shareholder was changed in 2014, the current major shareholder is SMRC Automotive Holdings Netherlands B.V., which owns 50.9% interests of the Company.

## 2. Basis of preparation and summary of significant accounting policies

### 2.1 Basis of preparation

The Company prepares statutory financial statements in the Korean language in accordance with Korean International Financial Reporting Standards (KIFRS) enacted by the *Act on External Audit of stock companies*. The accompanying financial statements have been translated into English from the Korean language financial statements. In the event of any differences in interpreting the financial statements or the independent auditors’ report thereon, the Korean version, which is used for regulatory reporting purposes, shall prevail.

The financial statements have been prepared on a historical cost basis, except as otherwise indicated. The financial statements are presented in Korean won with all values rounded to the nearest thousands, except when otherwise indicated.

### 2.2 Summary of significant accounting policies

#### 2.2.1 Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### 2.2.2 Fair value measurement

The Company measures financial instruments such as derivatives at fair value at the end of each reporting period. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

- Disclosure for valuation methods, significant estimates and assumptions – Note 4
- Financial instruments (including those carried at amortized cost) – Note 28
- Fair value measurement, quantitative disclosures fair value measurement hierarchy – Note 29

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

### 2.2.3 Foreign currencies

The Company's financial statements are presented in Korean won, which is also the Company's functional currency.

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated using the group's internal exchange rates at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

### 2.2.4 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are the same as those on the statement of cash flows.

### 2.2.5 Revenue from contracts with customers

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The Company has concluded that it is the principal in all of its revenue arrangements, excluding commission income, since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The following specific recognition criteria must also be met before revenue is recognized. The estimation of the Company is based on past experience such as customer types, transaction types and each transaction conditions.

***Sale of goods and merchandise***
The Company manufactures and sells instrument panel pads and other related products. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of equipment, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer.

***Warranty obligations***
The Company typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for under KIFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*. Refer to the Note 16 on warranty provisions.

***Interest income***
For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statements of profit or loss and other comprehensive income.

***Dividends***
Revenue is recognized when the Company's right to receive the payment is established.

### 2.2.6 Income taxes

***Current income tax***
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss and other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

***Deferred tax***
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the initial recognition of goodwill, deferred tax liabilities occurs
- When the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### 2.2.6 Income taxes (cont'd)

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustments would either be treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

### 2.2.7 Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant.

### 2.2.8 Pension benefits

The Company operates a defined benefit pension plan in Korea, which requires contributions to be made to a separately administered fund. The plan assets are independently operated as a fund under the management of a trustee. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Company) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income (OCI) in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognizes the current service costs and net interest expense in the net defined benefit obligation under 'cost of sales', 'administration expenses' and 'selling and distribution expenses' in the statement of comprehensive income.

### 2.2.9 Financial instruments: Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### 2.2.9.1 Financial assets

***Initial recognition and measurement***
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially 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. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under KIFRS 1115.

### 2.2.9.1 Financial assets (cont'd)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

***Subsequent measurement***
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon
- Financial assets at fair value through profit or loss

***Financial assets at amortised cost (debt instruments)***
The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

***Financial assets at fair value through OCI (debt instruments)***
The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

***Financial assets designated at fair value through OCI (equity instruments)***
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under KIFRS 1032 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its non-listed equity investments under this category.

### 2.2.9.1 Financial assets (cont'd)

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivatives and listed and unlisted equity instruments that have not made an irrevocable choice to treat changes in fair value through other comprehensive income. Dividends on listed equity instruments are recognized in profit or loss when rights are established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss.

Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

**Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### 2.2.9.1 Financial assets (cont'd)

**Impairment of financial assets**
The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at fair value through OCI, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the debt instrument. In addition, the Company considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Company's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category (Very Good and Good) by the Good Credit Rating Agency and, therefore, are considered to be low credit risk investments. It is the Company's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Company uses the ratings from the Good Credit Rating Agency both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

### 2.2.9.2 Financial liabilities

**Initial recognition and measurement**
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.
The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, financial guarantee contracts and derivative financial instruments.

**Subsequent measurement**
The measurement of financial liabilities depends on their classification, as described below:

***Financial liabilities at fair value through profit or loss***
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as of fair value through profit or loss.
Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by KIFRS 1109. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

### 2.2.9.2 Financial liabilities (cont'd)

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in KIFRS 1109 are satisfied. The Company has not designated any financial liability as of fair value through profit or loss.

***Loans and borrowings***
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

**Derecognition**
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

**Offsetting of financial instruments**
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

### 2.2.10 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Buildings, structures: 30 ~ 40 years
- Machinery: 7 ~ 14 years
- Vehicles: 7 years
- Tools and other equipment: 5 years
- Furniture and fixtures: 6 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the assets is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

### 2.2.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur.

### 2.2.12 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

***Research and development costs***
Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Company can demonstrate:

- The technical feasibility of completing the intangible asset so that the assets will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. Amortization is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

### 2.2.13 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of inventories includes purchase costs, transfer costs and costs incurred in bringing each product to its present location and conditions. Initial cost of inventories is determined by using the gross weighted-average method.

### 2.2.14 Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

### 2.2.14 Impairment of non-financial assets (cont'd)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognized in the statement of profit or loss and other comprehensive income in expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 either individually or at the CGU, as appropriate and when circumstances indicate that the carrying value may be impaired.

### 2.2.15 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions for warranty-related costs are recognized when the product is sold or service provided to the customer. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

### 2.2.16 Cash dividend and non-cash distributions to equity holders of the parent

The Company recognizes a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorized and the distribution are no longer at the discretion of the Company. A distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the statement of profit or loss and other comprehensive income.

## 3. Changes in accounting policies and disclosures

### 3.1 New and amended standards and interpretations

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2018. The nature and the impact of each new standard and amendment are described below:

**KIFRS 1109 *Financial Instruments***
The Company has applied KIFRS 1109 retrospectively, with the initial application date of January 1, 2018. The comparative information for each of the primary financial statements is not restated in accordance with the transition provision of KIFRS 1109, and there is no effect of adopting KIFRS 1109 on the Company's financial statements.

**KIFRS 1115 *Revenue from Contracts with Customers***
KIFRS 1115 supersedes KIFRS 1011 Construction Contracts, KIFRS 1018 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers.

KIFRS 1115 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

KIFRS 1115 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted KIFRS 1115 using the full retrospective method of adoption. The effect of the transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Company did not apply any of the other available optional practical expedients.

The cumulative effect of initially applying KIFRS 1115 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under KIFRS 1011, KIFRS 1018 and related Interpretations.

There is no effect of adopting KIFRS 1115 on the Company's financial statements.

### 3.2 Standard issued but not yet effective

**KIFRS 1116 *Leases***
KIFRS 1116 was issued in January 2016 and it replaces KIFRS 1017 *Leases*, KIFRS 2104 *Determining whether an Arrangement contains a Lease*, KIFRS 2015 *Operating Leases-Incentives* and KIFRS 2027 *Evaluating the Substance of Transactions* Involving the Legal Form of a Lease. KIFRS 1116 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under KIFRS 1017. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under KIFRS 1116 is not significantly changed from today's accounting under KIFRS 1017. Lessors will continue to classify all leases using the same classification principle as in KIFRS 1017 and distinguish between two types of leases: operating and finance leases.

### 3.2 Standard issued but not effective (cont'd)

KIFRS 1116 also requires lessees and lessors to make more extensive disclosures than under KIFRS 1017.

KIFRS 1116 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies KIFRS 1115 *Revenue from Contracts with Customers*. A lessee has an option to adopt KIFRS 1116 using either the full retrospective method or the modified retrospective method, and transitional provisions permit some optional practical expedients.

The Company is currently evaluating the potential effect of adoption of KIFRS 1116 on its financial statements and plans to apply the amendment on the specified effective date.

**Amendments to KIFRS 1019: *Plan Amendment, Curtailment or Settlement***
The amendments to KIFRS 1019 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

**IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment***
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of KIFRS 1012 and does not apply to taxes or levies outside the scope of KIFRS 1012, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available. The Company will apply the interpretation from its effective date. Since the Company operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements. In addition, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

## 3.2 Standard issued but not effective (cont'd)

### Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

- **KIFRS 1103 *Business Combinations***

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments will apply on future business combinations of the Company.

- **KIFRS 1111 *Joint Arrangements***

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in KIFRS 1103. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Company but may apply to future transactions.

- **KIFRS 1012 *Income Taxes***

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

- **KIFRS 1023 *Borrowing Costs***

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

## 4. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Financial risk management and policies – Note 27
- Capital management – Note 27

### 4.1 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

### 4.2 Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility (See Note 30).

### 4.3 Income taxes

There is uncertainty in determining the final tax effect on taxable profit generated by our operations. As a result of operating activities up to the end of the reporting period, the Company estimates the tax effects expected to be borne in the future and recognizes them as income taxes and deferred taxes for the current period. However, the actual future tax burden may not be consistent with the related assets and liabilities recognized, and this difference may affect current and deferred tax assets and liabilities at the time when the expected income tax effects are determined.

## 5. Operating segments

For management purposes, management has determined the operating segments based on their products and services information using the report reviewed by Board of Directors, making business strategy. The strategic steering committee considers the business from both a geographic and product perspective. Geographically, management considers a unitary segment associated with the performance of sales for automotive interiors parts in Korea.

The Company has two major customers, revenues from which account for more than 10% of the total revenue. The Company's revenue from the two customers accounted for 61.4% and 37.9%, respectively, for the year ended Decebmer 31, 2018, and 68.2% and 29.4%, respectively, for the year ended December 31, 2017.

## 6. Cash and cash equivalents

Cash and cash equivalents as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Cash and deposits | ₩ 3,522 | ₩ 2,886 |
| Deposits at financial institutions (*) | 8,772,735 | 15,790,830 |
| | ₩ 8,776,257 | ₩ 15,793,716 |

(*) Deposits at financial institutions include ordinary savings and others.

## 7. Trade and other receivables

Trade and other receivalbles as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Trade receivables (*1) | ₩ 25,735,825 | ₩ - | ₩ 36,055,283 | ₩ - |
| Allowance for doubtful accounts | (201,888) | - | (301,786) | - |
| | 25,533,937 | - | 35,753,497 | - |
| Other receivables | 4,477,487 | - | 1,929,999 | - |
| Allowance for doubtful accounts | (35,124) | - | (16,154) | - |
| Accrued income | 109,737 | - | 57,837 | - |
| Guarantee deposits | 578,245 | 404,881 | 687,070 | 245,106 |
| Long-term loans (*2) | - | 2,222,222 | - | 2,150,538 |
| | 5,130,405 | 2,627,103 | 2,658,752 | 2,395,644 |
| | ₩ 30,664,342 | ₩ 2,627,103 | ₩ 38,412,249 | ₩ 2,395,644 |

(*1) Trade receivables are non-interest bearing and are generally settled on terms of 30 ~ 60 days.
(*2) Long-term loans are loans to related parties. (Note 26)

The movements of allowance for doubtful accounts for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | Trade receivables | Other receivables | Total |
|---|---|---|---|
| January 1, 2017 | ₩ 326,706 | ₩ 29,473 | ₩ 356,179 |
| Provision | (24,920) | (13,319) | (38,239) |
| December 31, 2017 | 301,786 | 16,154 | 317,940 |
| Provision (Reversal) | (99,898) | 18,970 | (80,928) |
| December 31, 2018 | ₩ 201,888 | ₩ 35,124 | ₩ 237,012 |

The ageing analysis of trade and other receivables as of December 31, 2018 and 2017 is as follows (Korean won in thousands):

| | 2018 | | | |
|---|---|---|---|---|
| | Not past due | Past due | Impaired | Total |
| December 31, 2018 | ₩ 33,528,457 | ₩ - | ₩ - | ₩ 33,528,457 |
| December 31, 2017 | 41,125,833 | - | - | 41,125,833 |

## 8. Other assets and liabilities

Other assets and liabilities as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Other assets: | | | | |
| Advanced payments | ₩ 9,563,797 | ₩ - | ₩ 1,190,607 | ₩ - |
| Prepaid expenses | 226,606 | - | 208,128 | - |
| | ₩ 9,790,403 | ₩ - | ₩ 1,398,735 | ₩ - |
| Other liabilities: | | | | |
| Advance receipt | ₩ 13,121,219 | ₩ - | ₩ 3,204,064 | ₩ - |
| Withholdings | 358,642 | - | 637,187 | - |
| | ₩ 13,479,861 | ₩ - | ₩ 3,841,251 | ₩ - |

## 9. Other financial assets

Other financial assets as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Held-to-maturity financial assets | ₩ 20,340 | ₩ 12,420 | ₩ - | ₩ 31,240 |
| Other investment assets (*) | - | - | - | |
| | ₩ 20,340 | ₩ 12,420 | ₩ - | ₩ 31,240 |

(*) Other investment assets consist solely of gain on present value of surplus on the defined benefit pension plan (See Note 15).

## 10. Inventories

Details of inventories as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Finished goods | ₩ 217,513 | ₩ 176,947 |
| Work in progress | 238,360 | 302,150 |
| Raw materials (*) | 573,200 | 940,163 |
| Supplies | 6,587 | 9,370 |
| Merchandise | 11,068 | 13,992 |
| Materials-in-transit | 214,852 | 136,311 |
| | ₩ 1,261,580 | ₩ 1,578,933 |

(*) The Company recognized obsolescence loss of ₩39,792 thousand (2017: ₩63,470 thousand) in 2018.

## 11. Property, plant and equipment, net

Details of property, plant and equipment as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Jan. 1 | Additions | Disposals | Transfers | Depreciation | Dec. 31 |
| Acquistion cost: | | | | | | |
| Land | ₩ 1,267,235 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 1,267,235 |
| Buildings | 7,667,268 | - | - | - | - | 7,667,268 |
| Structures | 502,118 | - | - | - | - | 502,118 |
| Machinery | 20,242,239 | 1,852,714 | (1,946,939) | 1,214,500 | - | 21,362,514 |
| Vehicles | 910,670 | 157,706 | (256,001) | - | - | 812,375 |
| Tools and other equipment | 5,863,784 | 1,046,809 | (137,479) | - | - | 6,773,114 |
| Furniture and fixtures | 4,384,980 | 701,165 | (179,515) | - | - | 4,906,630 |
| Construction-in-progress | 1,214,500 | 73,755 | - | (1,214,500) | - | 73,755 |
| | 42,052,794 | 3,832,149 | (2,519,934) | - | - | 43,365,009 |
| Accumulated depreciation: | | | | | | |
| Buildings | (3,256,745) | - | - | - | (233,249) | (3,256,744) |
| Structures | (177,824) | - | - | - | (15,168) | (192,992) |
| Machinery | (11,773,312) | - | 1,925,091 | - | (1,153,938) | (11,002,159) |
| Vehicles | (481,371) | - | 198,546 | - | (90,218) | (373,043) |
| Tools and other equipment | (4,202,128) | - | 137,464 | - | (612,715) | (4,677,379) |
| Furniture and fixtures | (2,442,697) | - | 179,496 | - | (572,808) | (2,836,009) |
| | (22,334,077) | - | 2,440,597 | - | (2,678,096) | (22,571,576) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net book value: | | | | | | |
| Land | 1,267,235 | - | - | - | - | 1,267,235 |
| Buildings | 4,410,523 | - | - | - | (233,249) | 4,177,274 |
| Structures | 324,294 | - | - | - | (15,168) | 309,126 |
| Machinery | 8,468,927 | 1,852,714 | (21,848) | 1,214,500 | (1,153,938) | 10,360,355 |
| Vehicles | 429,299 | 157,706 | (57,455) | - | (90,218) | 439,332 |
| Tools and other equipment | 1,661,656 | 1,046,809 | (15) | - | (612,715) | 2,095,735 |
| Furniture and fixtures | 1,942,283 | 701,165 | (19) | - | (572,808) | 2,070,621 |
| Construction-in-progress | 1,214,500 | 73,755 | - | (1,214,500) | - | 73,755 |
| | ₩ 19,718,717 | ₩ 3,832,149 | ₩ (79,337) | ₩ - | ₩ (2,678,096) | ₩ 20,793,433 |

## 11. Property, plant and equipment (cont'd)

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Jan. 1 | Additions | Disposals | Transfers | Depreciation | Dec. 31 |
| Acquistion cost: | | | | | | |
| Land | ₩ 1,267,235 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 1,267,235 |
| Buildings | 7,667,268 | - | - | - | - | 7,667,268 |
| Structures | 502,118 | - | - | - | - | 502,118 |
| Machinery | 19,069,495 | 1,180,778 | (178,034) | 170,000 | - | 20,242,239 |
| Vehicles | 897,805 | 73,835 | (60,970) | - | - | 910,670 |
| Tools and other equipment | 5,538,702 | 530,393 | (205,311) | - | - | 5,863,784 |
| Furniture and fixtures | 3,224,057 | 977,446 | (247,046) | 430,523 | - | 4,384,980 |
| Construction-in-progress | 600,523 | 1,214,500 | - | (600,523) | - | 1,214,500 |
| | 38,767,203 | 3,976,952 | (691,361) | - | - | 42,052,794 |
| Accumulated depreciation: | | | | | | |
| Buildings | (3,023,496) | - | - | - | (233,249) | (3,256,745) |
| Structures | (162,656) | - | - | - | (15,168) | (177,824) |
| Machinery | (10,806,649) | - | 171,743 | - | (1,138,406) | (11,773,312) |
| Vehicles | (432,007) | - | 55,004 | - | (104,368) | (481,371) |
| Tools and other equipment | (3,842,858) | - | 205,300 | - | (564,570) | (4,202,128) |
| Furniture and fixtures | (2,240,210) | - | 247,013 | - | (449,500) | (2,442,697) |
| | (20,507,876) | - | 679,060 | - | (2,505,261) | (22,334,077) |
| Net book value: | | | | | | |
| Land | 1,267,235 | - | - | - | - | 1,267,235 |
| Buildings | 4,643,772 | - | - | - | (233,249) | 4,410,523 |
| Structures | 339,462 | - | - | - | (15,168) | 324,294 |
| Machinery | 8,262,846 | 1,180,778 | (6,291) | 170,000 | (1,138,406) | 8,468,927 |
| Vehicles | 465,798 | 73,835 | (5,966) | - | (104,368) | 429,299 |
| Tools and other equipment | 1,695,844 | 530,393 | (11) | - | (564,570) | 1,661,656 |
| Furniture and fixtures | 983,847 | 977,446 | (33) | 430,523 | (449,500) | 1,942,283 |
| Construction-in-progress | 600,523 | 1,214,500 | - | (600,523) | - | 1,214,500 |
| | ₩ 18,259,327 | ₩ 3,976,952 | ₩ (12,301) | ₩ - | ₩ (2,505,261) | ₩ 19,718,717 |

As of December 31, 2018 and December 31, 2017, the above vehicles are pledged to KB Capital Co., Ltd. for up to ₩ 55,000 thousand.

## 12. Intangible assets

Intangible assets consist solely of memberships, as of December 31, 2018 and 2017. Changes in the intangible assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| As of January 1 | ₩ 679,299 | ₩ 426,989 |
| Additions | - | 252,310 |
| As of December 31 | ₩ 679,299 | ₩ 679,299 |

Memberships with indefinite useful lives are tested for impairment annually and also assessed for impairment whenever there is an indication that the intangible assets may be impaired. There is no impairment loss recognized for the year ended December 31, 2018 and 2017. Recoverable amount of memberships is the higher of asset's net fair value and its value-in-use. Unless net fair value is used, the recoverable amount was determined based on the reasonably calculated net fair value and value-in-use.

## 13. Other payables

Details of the Company's other payables for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Other accounts payable | ₩ 9,355,712 | ₩ 88,092 | ₩ 6,193,620 | ₩ 70,353 |
| Accrued expenses | 983,530 | - | 872,351 | - |
| | ₩ 10,339,242 | ₩ 88,092 | ₩ 7,065,971 | ₩ 70,353 |

## 14. Long-term borrowings

Details of the Company's long-term borrowings for the years ended December 31, 2018 are as follows. (Refer to Note 26)

| Lender | Interset rate | Borrowing date | Maturity date | 2018 | 2017 |
|---|---|---|---|---|---|
| SMRC Automotive Holdings Netherlands B.V. | LIBOR+2.25% | 2017-02-24 | 2022-02-23 | ₩ 2,122,222 (USD 1,910,000) | ₩ 2,053,765 (USD1,910,000) |

## 15. Pensions and other post-employment benefit plans

The Company operates a defined benefit plan for its employees in which the cost of such liability is determined using actuarial valuations and discounted using the projected unit credit method performed by an eligible and independent actuary.

Net benefit expense for the defined benefit obligation recognized in the income statement for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Current service cost | ₩ 965,240 | ₩ 959,976 |
| Net interest expense | (32,407) | (50,020) |
| | ₩ 932,833 | ₩ 909,956 |

Defined benefit liabilities as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Present value of funded defined benefit obligation | ₩ 11,348,286 | ₩ 9,577,421 |
| Fair value of pension plan assets | (10,443,434) | (9,503,864) |
| Employee benefit liability in financial statements (*) | ₩ 904,852 | ₩ 73,557 |

(*) The amount in excess of the present value of defined benefit obligation is recognized as other non-current financial assets.

### 15. Pensions and other post-employment benefit plans (cont'd)

Changes in the present value of the net defined benefit liability for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Beginning balance | ₩ 73,557 | ₩ (1,034,200) |
| Pension cost charged to profit or loss: | | |
| Current service cost | 965,240 | 959,976 |
| Net interest expense | (32,407) | (50,020) |
| | 932,833 | 909,956 |
| Benefits paid | (75,519) | 1,133,256 |
| Re-measurement gain (loss) in OCI: | | |
| Actuarial changes arising from changes in demographic assupmptions | - | - |
| Actuarial changes arising from changes in financial assumptions | 479,464 | (119,299) |
| Loss on plan assets (excluding amounts included in interest expenses) | 131,443 | 123,479 |
| Experience adjustments | 263,074 | 60,365 |
| | 873,981 | 64,545 |
| Contributions by the Company | (900,000) | (1,000,000) |
| Decrease in the national pension fund | - | - |
| Ending balance | ₩ 904,852 | ₩ 73,557 |

Changes in the present value of the defined benefit obligation for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Beginning balance | ₩ 9,577,421 | ₩ 8,608,991 |
| Pension cost charged to profit or loss: | | |
| Current service cost | 965,240 | 959,976 |
| Interest expenses | 233,058 | 184,896 |
| | 1,198,298 | 1,144,872 |
| Benefits paid | (169,971) | (117,508) |
| Re-measurement gain (loss) in OCI: | | |
| Actuarial changes arising from changes in demographic assupmptions | - | - |
| Actuarial changes arising from changes in financial assumptions | 479,464 | (119,299) |
| Experience adjustments | 263,074 | 60,365 |
| | 742,538 | (58,934) |
| Ending balance | ₩ 11,348,286 | ₩ 9,577,421 |

### 15. Pensions and other post-employment benefit plans (cont'd)

Changes in the fair value of the plan assets for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Beginning balance | ₩ 9,503,864 | ₩ 9,643,191 |
| Pension cost charged to profit or loss: | | |
| Interest income | 265,465 | 234,916 |
| | 265,465 | 234,916 |
| Benefits paid | (94,452) | (1,250,764) |
| Re-measurement gain (loss) in OCI: | | |
| Loss on plan assets (excluding amounts included in interest income) | (131,443) | (123,479) |
| Contributions by employer | 900,000 | 1,000,000 |
| Decrease in the national pension fund | - | - |
| Ending balance | ₩ 10,443,434 | ₩ 9,503,864 |

The major categories of plan assets as a percentage of the fair value of the total plan assets as of December 31, 2018 and 2017 are as follows (Korean won in thousands and percentages):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| Fixed income type financial instrument | ₩ 4,226,273 | 40.47% | ₩ 689,975 | 7.26% |
| Principal guaranteed financial instrument | 6,013,255 | 57.58% | 4,662,578 | 49.06% |
| Time deposits | 200,421 | 1.92% | 4,146,280 | 43.63% |
| Others | 3,485 | 0.03% | 5,031 | 0.05% |
| | ₩ 10,443,434 | 100% | ₩ 9,503,864 | 100% |

### 15. Pensions and other post-employment benefit plans (cont'd)

The principal assumptions used in actuarial calculation for the years ended December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|---|---|---|
| Future salary increase rate | 3.15% | 3.15% |
| Discount rate | 2.20% | 2.80% |
| Expected rate of return of plan assets | 2.20% | 2.80% |

In determining the appropriate discount rate, management considers the interest rates of corporate bonds of the defined benefit obligation.

Sensitivity analysis for significant assumptions as of December 31, 2018 and 2017 are as shown below (Korean won in thousands):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Increase by 1% | Decrease by 1% | Increase by 1% | Decrease by 1% |
| Discount rate | ₩ (402,063) | 428,732 | ₩ (661,613) | 756,217 |
| Future salary increase rate | 454,030 | (429,603) | 761,596 | (678,021) |

The sensitivity analyses above have been determined based on the method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

Expected contributions to post-employment benefit plans are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Within twelve months | ₩ 1,000,000 | ₩ 935,861 |

### 16. Warranty provisions

Changes in the warranty provisions for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| As of January 1 | ₩ 174,498 | 156,382 |
| Provided during the year | 380,155 | 235,208 |
| Utilized | (382,587) | (217,092) |
| As of December 31 | ₩ 172,066 | 174,498 |

### 17. Issued capital and retained earnings

The Company's number of authorized shares is 2,920,000 shares. Total number of ordinary shares issued is 1,699,681 and the par value per share is ₩ 5,000.

Appropriated retained earnings of the Company for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Legal reserve | ₩ 4,249,203 | ₩ 4,249,203 |
| Voluntary reserve (*) | 500,000 | 1,000,000 |
| Retained earnings | 17,468,198 | 23,478,377 |
| | ₩ 22,217,401 | ₩ 28,727,580 |

### 17. Issued capital and retained earnings (cont'd)

(*) Pursuant to the Tax Incentives Limitation Law (TILL), the reserve for research and development are provided in order to obtain tax benefits with respect to the year for when the appropriations are proposed. These reserves may be utilized for cash dividends after the expiration of the specified grace period.

The statements of appropriations of retained earnings for the years ended December 31, 2018 and 2017 are as follows (Korean won):

| | 2018 | 2017 |
|---|---|---|
| Retained earnings before appropriations: | ₩ 17,468,198,881 | ₩ 23,478,377,226 |
| Unappropriated retained earnings carried forward from the prior year | 12,508,929,838 | 9,140,446,985 |
| Re-measurement of defined benefit obligations | (681,704,968) | (50,345,136) |
| Net income | 5,640,974,011 | 14,388,275,377 |
| Transfer from other reserves | - | 500,000,000 |
| Appropriations: | - | - |
| Legal reserve | - | - |
| Dividends | - | 11,469,447,388 |
| Unappropriated retained earnings to be carried forward to the next year | ₩ 17,468,198,881 | ₩ 12,508,929,838 |

The statements of appropriations of retained earnings for the year ended December 31, 2018 are scheduled to be approved on March 29, 2019 and for the year ended December 31, 2017 were approved on March 28, 2018.

### 18. Revenue

Details of the Company's revenue for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Sales of finished goods | ₩ 118,351,752 | ₩ 147,541,556 |
| Sales of merchandise | 23,163,194 | 24,486,646 |
| | ₩ 141,514,946 | ₩ 175,679,690 |

## 19. Selling and administrative expenses

Details of the Company's selling and administrative expenses for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Wages and salaries | ₩ | 4,048,215 | ₩ | 4,331,337 |
| Development expense | | 2,105,764 | | 3,163,251 |
| Commissions | | 440,677 | | 598,548 |
| Provision for sales warranty | | 380,155 | | 235,208 |
| Automobiles | | 230,690 | | 218,181 |
| Transportation | | 74,444 | | 164,256 |
| Entertainment | | 99,570 | | 114,125 |
| Taxes and dues | | 246,647 | | 106,032 |
| Depreciation | | 82,269 | | 99,737 |
| Insurance | | 73,292 | | 72,650 |
| Rents | | 56,907 | | 57,507 |
| Communication | | 39,338 | | 46,463 |
| Utilities | | 31,087 | | 32,622 |
| Training | | 20,628 | | 20,240 |
| Others | | 33,382 | | 16,184 |
| Bad debt expense | | (99,898) | | (24,920) |
| | ₩ | 7,863,167 | ₩ | 9,251,421 |

## 20. Finance income and Finance expense

Gain and loss of financial instruments by category for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Finance income: | | | | |
| Interest income | ₩ | 247,433 | ₩ | 229,348 |
| Finance expense | | | | |
| Interest expense | | 85,843 | | 70,556 |

## 21. Other operating income and expenses

Other operating income and expenses for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Other income: | | | | |
| Gain on foreign currency transactions | ₩ | 36,871 | ₩ | 66,116 |
| Gain on foreign currency translations | | 73,606 | | 131,590 |
| Gain on disposal of property, plant and equipment | | 12,812 | | 7,487 |
| Rental revenue | | 58,128 | | 57,294 |
| Miscellaneous revenue | | 3,926,336 | | 4,820,800 |
| | ₩ | 4,107,753 | ₩ | 5,083,287 |
| Other expenses: | | | | |
| Loss on foreign currency transactions | ₩ | 37,954 | ₩ | 137,385 |
| Loss on foreign currency translations | | 71,052 | | 191,973 |
| Other bad debt expenses | | 18,970 | | (13,318) |
| Donation | | 7,600 | | 8,450 |
| Loss on disposal of property, plant and equipment | | 52,967 | | 6,334 |
| Loss on retirement of inventory | | 39,793 | | 63,470 |
| Miscellaneous expenses | | 125,730 | | 99,300 |
| Loss on disposal of trade receivables | | - | | 12,285 |
| | ₩ | 354,066 | ₩ | 505,879 |

## 22. Classification of expenses based on nature of expense

Classification of expenses (cost of sales and selling and administrative expenses) based on nature of expense for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Changes of inventories | ₩ | 317,353 | ₩ | (201,779) |
| Purchase of raw materials and merchandises | | 92,041,211 | | 113,140,979 |
| Wages and salaries | | 18,763,595 | | 19,168,886 |
| Depreciation | | 2,678,096 | | 2,505,261 |
| Advertising expense | | 24,700 | | 8,604 |
| Commission fees | | 1,901,261 | | 2,115,866 |
| Others | | 22,459,204 | | 25,291,485 |
| | ₩ | 138,185,420 | ₩ | 162,029,302 |

Employee benefits for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Salaries | ₩ | 15,338,384 | ₩ | 15,535,859 |
| Employee severance benefits | | 932,833 | | 909,956 |
| Employee welfare benefits | | 2,492,378 | | 2,723,071 |
| | ₩ | 18,763,595 | ₩ | 19,168,886 |

## 23. Income taxes

The major components of income tax expense for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

### Income taxes in profit or loss

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Current income taxes | ₩ | 1,872,061 | ₩ | 4,441,585 |
| Deferred income taxes: | | | | |
| Relating to origination and reversal of temporary differences | | (460,509) | | (457,473) |
| Recognized directly to equity | | 192,276 | | 14,200 |
| Income tax expense | ₩ | 1,603,828 | ₩ | 3,998,312 |

### Income taxes in other comprehensive income

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Deferred income taxes recognized directly to equity: | | | | |
| Remeasurement of the net defined benefit liability | ₩ | 192,276 | ₩ | 14,200 |
| | ₩ | 192,276 | ₩ | 14,200 |

A reconciliation of income tax expense and the accounting profit at the Korean domestic tax rate for the years ended December 31, 2018 and 2017 is as follows (Korean won in thousands):

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Profit before income tax | ₩ | 7,244,802 | ₩ | 18,386,587 |
| Taxes at the statutory income tax rate (2018: 21.88%, 2017: 21.88%) | | 1,571,857 | | 4,023,049 |
| Adjustments: | | | | |
| Tax credits | | (247,895) | | (103,003) |
| Additional tax payment | | - | | - |
| Non-deductible expenses | | (81,088) | | (50,212) |
| Others | | 360,955 | | 128,478 |
| Income tax expense | | 1,603,828 | | 3,998,312 |
| Effective tax rate | | 22.14% | | 21.75% |

### 23. Income tax (cont'd)

Deferred income tax assets and liabilities for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | Statements of financial position | | Statements of comprehensive income | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Accrued income | ₩ (1,813) | ₩ (2,180) | ₩ (367) | ₩ (52) |
| Pension plan assets | (2,296,450) | (2,089,745) | 206,705 | 183,448 |
| Depreciation | (719,506) | (881,228) | (161,722) | (309,697) |
| Gain on foreign currency translations | (2,255) | (2,232) | 23 | (52) |
| Reserve for R&D | - | (110,000) | (110,000) | (110,000) |
| Defined benefit liability | 2,495,517 | 2,105,927 | (389,590) | (213,054) |
| Provision for sales warranty | 37,855 | 38,389 | 534 | (3,985) |
| Government grants | 19,380 | - | (19,380) | - |
| Accrued expenses | 142,931 | 143,010 | 79 | 2,960 |
| Long-term accounts payable | - | 13,209 | 13,209 | (7,041) |
| Impairment of intangible assets | 64,682 | 64,682 | - | - |
| Deferred tax expense (benefit) | | | ₩ (460,509) | ₩ (457,473) |
| Deferred tax asset (liability) | ₩ (259,659) | ₩ (720,168) | | |

### 24. Earnings per share

Basic earnings per share is calculated by dividing net profit for the year by the weighted average number of ordinary shares outstanding during the year. The following reflects income and share data used in the basic earnings per share computations (Korean won except for number of shares):

| | 2018 | 2017 |
|---|---|---|
| Net profit for the year | ₩ 5,640,974,011 | ₩ 14,388,275,377 |
| Weighted-average number of shares of ordinary stock outstanding (*1) | 1,699,681 | 1,699,681 |
| Basic earnings per share (*2) | ₩ 3,319 | ₩ 8,465 |

(*1) Weighted-average number of shares of common stock outstanding in 2018 is 1,699,681, which is the same in 2017.
(*2) Diluted earnings per share are the same as basic earnings per share as the Company has not issued dilutive securities.

### 25. Government grants

Changes in the government grants for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| As of January 1 | ₩ 60,039 | ₩ 28,036 |
| Received during the year | 111,265 | 32,003 |
| Released to profit or loss | (83,213) | - |
| As of December 31 | ₩ 88,091 | ₩ 60,039 |

### 25. Government grants (cont'd)

Government grants have been used for research and development activities in connection with a MOU with Korea Institue for Advancement of Technology. All portions of the grants not requiring repayment conditions have been offset against related expenses as of December 31, 2018.

The portion of the grants with repayment conditions amount to ₩88,091 thousand as of December 31, 2018. The repayment amount is determined based on the actual amounts incurred with respect to research and development activities and any difference is recognized in other income (expense).

### 26. Related party disclosures

Details of related parties as of December 31, 2018 are as follows:

| Related party | Relationship with the Company |
|---|---|
| Sambardhana Motherson Automotive System Group B.V. | Ultimate parent |
| SMRC Automotive Holdings Netherlands B.V. (equity ownership: 50.9%) | Parent |

There are no subsidiaries as of December 31, 2018 and 2017.

Related parties with significant transactions or outstanding balances of receivables and payables for the years ended December 31, 2018 and 2017 are as follows:

| | 2018 | 2017 | |
|---|---|---|---|
| Parent | SMRC Automotive Holdings Netherlands B.V | Reydel Automotive B.V. | (*1) |
| Other related parties | Duckyang Industry Co., Ltd. | Duckyang Industry Co., Ltd. | |
| | SMRC Automotive Interiors Japan | Reydel Automotive Japan Ltd | (*1) |
| | SMRC Automotive Modules France SAS | Reydel Automotive France SAS | (*1) |
| | Reydel Automotive Brazil Industria eComercio Automotivos Ltda | Reydel Automotive Brazil Industria eComercio Automotivos Ltda | (*1) |
| | Samvardhana Motherson Reydel Companies Spain | Reydel Automotive Indonesia | (*1) |

(*1) During 2017, the parent company changed from Reydel Automotive B.V. to SMRC Automotive Holdings Netherlands B.V. and Reydel Automotive B.V.'s shares were acquired by SMRC Automotive Holdings Netherlands B.V. Accordingly, affiliates of SMRC Automotive Holdings Netherlands B.V. were included as related parties and Reydel Automotive B.V. was excluded.

## 26. Related party disclosures (cont'd)

Significant transactions with related parties for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | Period | Sales | Rental revenue | Interest income | Other revenue | Purchase | Rental expense | Interest expense |
|---|---|---|---|---|---|---|---|---|
| Parent: | | | | | | | | |
| SMRC Automotive Holdings Netherlands B.V. | 2018 | ₩ - | ₩ - | ₩ - | ₩ 27,716 | ₩ - | ₩ - | ₩ 85,843 |
| | 2017 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - | ₩ - |
| Other related parties: | | | | | | | | |
| Duckyang Industry Co., Ltd. | 2018 | 3,834 | 58,128 | - | 40,376 | 109,260 | 342,000 | - |
| | 2017 | 10,544 | 57,294 | - | 7,500 | 285,610 | 342,000 | - |
| SMRC Automotive Interiors Japan | 2018 | - | - | - | - | 174,387 | - | - |
| | 2017 | - | - | - | - | 36,097 | - | - |
| SMRC Automotive Modules France SAS | 2018 | 154,688 | - | 101,554 | - | 38,744 | - | - |
| | 2017 | 327,816 | - | 47,927 | 19,305 | 48,553 | - | - |
| Samvardhana Motherson Reydel Companies Spain | 2018 | 138,323 | - | - | - | - | - | - |
| | 2017 | - | - | - | - | - | - | - |
| Reydel Automotive Indonesia | 2018 | - | - | - | - | - | - | - |
| | 2017 | - | - | - | 38,404 | - | - | - |
| | 2018 | ₩ 296,845 | ₩ 58,128 | ₩ 101,554 | ₩ 68,092 | ₩ 322,391 | ₩342,000 | ₩ 85,843 |
| | 2017 | ₩ 338,360 | ₩ 57,294 | ₩ 47,927 | ₩ 65,209 | ₩ 370,260 | ₩342,000 | ₩ 70,556 |

Financial transactions among related parites except for dividends paid for the years ended December 31, 2018 and 2017 are as follows:

| | Period | Interest income | Interest expense | Loans | Borrowings |
|---|---|---|---|---|---|
| Pararent: | | | | | |
| SMRC Automotive Holdings Netherlands B.V. | 2018 | ₩ - | ₩ 85,843 | ₩ - | ₩ 2,122,222 |
| | 2017 | ₩ - | ₩ 70,556 | ₩ - | ₩ 2,053,763 |
| Other related parties: | | | | | |
| SMRC Automotive Modules France SAS | 2018 | 101,554 | - | 2,222,222 | - |
| | 2017 | 47,927 | - | 2,150,528 | - |

## 26. Related party disclosures (cont'd)

Outstanding balances with related parties as of December 31, 2017 and 2016 are as follows (Korean won in thousands):

| | | Receivables | | Payables | |
|---|---|---|---|---|---|
| | Year end | Accounts receivable | Other receivables | Trade payables | Other payables |
| Parent: | | | | | |
| SMRC Automotive Holdings Netherlands B.V. | 2018 | ₩ - | ₩ - | ₩ - | ₩ 2,208,065 |
| | 2017 | ₩ - | ₩ - | ₩ - | ₩ 2,124,320 |
| Other related parties: | | | | | |
| Duckyang Industry Co., Ltd. | 2018 | - | - | - | 90,670 |
| | 2017 | - | - | - | 201,445 |
| SMRC Automotive Interiors Japan. | 2018 | - | - | - | 68,134 |
| | 2017 | - | - | - | 1,527 |
| SMRC Automotive Modules France SAS | 2018 | 4,264 | 2,323,776 | 21,197 | 12,085 |
| | 2017 | 159,757 | 2,203,336 | 21,479 | 79,371 |
| Reydel Automotive Brazil Industria e Comercio Automotivos Ltda | 2018 | - | - | - | - |
| | 2017 | - | - | - | 182,716 |
| Samvardhana Motherson Reydel Companies Spain | 2018 | 136,507 | - | - | - |
| | 2017 | - | - | - | - |
| PT Reydel Automotive Indonesia | 2018 | - | - | - | - |
| | 2017 | - | 37,464 | - | - |
| | 2018 | ₩ 140,771 | ₩ 2,323,776 | ₩ 21,197 | ₩ 2,378,955 |
| | 2017 | ₩ 159,757 | ₩ 2,240,800 | ₩ 21,479 | ₩ 2,589,379 |

The following represents amounts recognized as an expense during the reporting period related to key management personnel. Key management personnel include standing directors who are responsible for the Company's business, such as planning, operations and control (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Wages and salaries | ₩ 749,722 | ₩ 694,253 |
| Employee severance benefits | 98,322 | 147,770 |
| | ₩ 848,044 | ₩ 842,023 |

## 27. Financial risk management objectives and policies

The Company's principal financial liabilities comprise trade and other payables to finance the Company's operations. The Company has trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks and reviews and agrees policies for managing each of these risks which are summarized below.

### 27.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. The sensitivity analyses in the following sections relate to the position as of December 31, 2018.

#### 27.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company, as of December 31, 2018, operates all deposits and borrowings at fixed rate of interest, and the impact of changes in market interest rates on the fair value and cash flow of the financial instruments is deemed immaterial.

#### 27.1.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As of December 31, 2018, the impact of changes in monetary assets and liabilities by foreign currency on the fair value and cash flow of the financial instruments is deemed immaterial.

#### 27.1.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than interest rate risks or foreign currency risks. The equity securities of unlisted companies that the Company has are exposed to market price risks resulting from the uncertainties of changes in future market value. However, the impact of changes in fair market value on its future cash flows is not material.

### 27.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating and financing activities.

#### 27.2.1 Trade and other receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other form of credit insurance.

The requirement for impairment is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are put into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The maximum exposure to credit risk as at December 31, 2018 and 2017 are the carrying value of each class of financial assets as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Trade receivables | ₩ 25,533,937 | ₩ 35,753,497 |
| Non-trade receivables | 7,757,508 | 5,054,395 |

The requirement for impairment is analyzed at each reporting date on an individual basis.

### 27.2.2 Other assets

Credit risk is associated with the Company's other assets which consist of cash, short-term deposits and short-term financial instruments that arise from the default of counterparties. Maximum exposure to credit risks will be the carrying value of the other assets. The Company deposits its surplus funds in KEB Hana Bank and other financial institutions whose credit ratings are high, and as such, credit risk related to financial instruments is considered low.

## 27.3 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations under financial commitments due to a shortage of funds.

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preference shares, finance leases and hire purchase contracts.

The table below summarizes the maturity profile of the Company's financial assets and liabilities based on contractual undiscounted payments as of December 31, 2018 (Korean won in thousands):

| | 2018 | | |
|---|---|---|---|
| | Within 1 year | Over 1 year | Total |
| Trade payables | ₩ 16,511,985 | - | 16,511,985 |
| Other financial liabilities | 10,339,242 | 88,092 | 10,427,334 |
| Long-term borrowing | 85,843 | 2,392,452 | 2,478,295 |
| | ₩ 26,937,070 | 2,480,544 | 29,417,614 |

| | 2017 | | |
|---|---|---|---|
| | Within 1 year | Over 1 year | Total |
| Trade payables | ₩ 26,210,142 | ₩ - | ₩ 26,210,142 |
| Other financial liabilities | 7,065,971 | 70,353 | 7,136,324 |
| Long-term borrowing | 70,556 | 2,385,598 | 2,456,154 |
| | ₩ 33,346,669 | ₩ 2,455,951 | ₩ 35,802,620 |

The periodical cash flows of the above financial liabilities until maturity are not discounted and calculated on the basis of the earliest date when a bondholder can ask the Company to pay.

## 27.4 Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. The Company monitors capital using a debt ratio, which is net debt divided by adjusted capital. The Company includes within net debt, total debt less cash and short-term deposits.

No changes were made in the objectives, policies or processes for managing capital during the year ended December 31, 2017.

The debt-to-equity ratio as of December 31, 2018 and 2017 is as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Total liabilities | ₩ 43,877,979 | ₩ 42,782,549 |
| Less: cash and cash equivalents | 8,776,257 | 15,793,716 |
| Net liabilities | 35,101,722 | 26,988,833 |
| Total capital | 30,931,611 | 37,225,985 |
| Debt to equity ratio | 113.48% | 72.50% |

### 28. Financial instruments by category

Financial assets by category as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Loans and receivables | Available-for-sale financial assets | Held-to-maturity investments | Loans and receivables | Available-for-sale financial assets | Held-to-maturity investments |
| Current assets: | | | | | | |
| Cash and cash equivalents | ₩ 8,776,257 | ₩ - | ₩ - | ₩ 15,793,716 | ₩ - | ₩ - |
| Trade receivables | 25,533,937 | - | - | 35,753,497 | - | - |
| Other receivables | 5,130,405 | - | - | 2,658,751 | - | - |
| Held-to-maturity financial assets | - | - | 20,340 | - | - | - |
| | 39,440,599 | - | 20,340 | 54,205,964 | - | - |
| Non-current assets: | | | | | | |
| Held-to-maturity financial assets | - | - | 12,420 | - | - | 31,240 |
| Other receivables | 2,627,103 | - | - | 2,395,644 | - | - |
| | 2,627,103 | - | 12,420 | 2,395,644 | - | 31,240 |
| | ₩ 42,067,702 | ₩ - | ₩ 32,760 | ₩ 56,601,608 | ₩ - | ₩ 31,240 |

Financial liabilities consist of financial liabilities at fair value through profit or loss and those at amortized cost ("other financial liabilities"), and as of December 31, 2018, financial liabilities consist solely of other financial liabilities. Financial liabilities by category as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | 2017 |
|---|---|---|
| Current liabilities: | | |
| Trade payables | ₩ 16,511,985 | ₩ 26,210,142 |
| Other financial liabilities | 10,339,242 | 7,065,971 |
| | 26,851,227 | 33,276,113 |
| Non-current liabilities: | | |
| Other financial liabilities | 88,092 | 70,353 |
| Long-term borrowing | 2,122,222 | 2,053,763 |
| | 2,210,314 | 2,124,116 |
| | ₩ 29,061,541 | ₩ 35,400,229 |

Revenue and expenses for financial assets and liabilities by category for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | |
|---|---|---|---|
| | Loans and receivables | Other financial liabilities | Total |
| Interest income | ₩ 247,433 | ₩ - | ₩ 247,433 |
| Gain on foreign currency transactions | 5,801 | 31,070 | 36,871 |
| Gain on foreign currency translations | 73,606 | - | 73,606 |
| Bad debts allowances | 99,898 | - | 99,898 |
| Other bad debts allowances | (18,970) | - | (18,970) |
| Interest expense | - | (85,843) | (85,843) |
| Loss on foreign currency transactions | (4,923) | (33,032) | (37,955) |
| Loss on foreign currency translations | - | (71,052) | (71,052) |
| | ₩ 402,845 | ₩ (158,857) | ₩ 243,988 |

## 28. Financial instruments by category (cont'd)

| | 2016 | | |
|---|---|---|---|
| | Loans and receivables | Other financial liabilities | Total |
| Interest income | ₩ 229,348 | ₩ - | ₩ 229,348 |
| Gain on foreign currency transactions | 13,588 | 52,528 | 66,116 |
| Gain on foreign currency translations | 108,439 | 23,151 | 131,590 |
| Bad debts allowances | 24,920 | - | 24,920 |
| Other bad debts allowances | 13,318 | - | 13,318 |
| Interest expense | - | (70,556) | (70,556) |
| Loss on foreign currency transactions | (48,999) | (88,386) | (137,385) |
| Loss on foreign currency translations | (190,920) | (1,053) | (191,973) |
| | ₩ 149,694 | ₩ (84,317) | ₩ 65,377 |

## 29. Fair value

Fair values of financial instruments as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| Financial assets: | | | | |
| Cash and cash equivalents | ₩ 8,776,257 | ₩ 8,776,257 | ₩ 15,793,716 | ₩ 15,793,716 |
| Trade receivables | 25,533,937 | 25,533,937 | 35,753,497 | 35,753,497 |
| Other current receivables | 5,130,405 | 5,130,405 | 2,658,751 | 2,658,751 |
| Current held-to-maturity investments | 20,340 | 20,340 | - | - |
| Non-current held-to-maturity investments | 12,420 | 12,420 | 31,240 | 31,240 |
| Other non-current receivables | 2,627,103 | 2,627,103 | 2,395,644 | 2,395,644 |
| | ₩ 42,100,462 | ₩ 42,100,462 | ₩ 56,632,848 | ₩ 56,632,848 |
| Financial liabilities: | | | | |
| Trade payables | 16,511,985 | 16,511,985 | 26,210,142 | 26,210,142 |
| Other current liabilities | 10,339,242 | 10,339,242 | 7,065,971 | 7,065,971 |
| Other non-current liabilities | 88,092 | 88,092 | 70,353 | 70,353 |
| Long-term borrowing | 2,122,222 | 2,122,222 | 2,053,763 | 2,053,763 |
| | ₩ 29,061,541 | ₩ 29,061,541 | ₩ 35,400,229 | ₩ 35,400,229 |

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

## 29. Fair value (cont'd)

Fair value hierarchies for financial instruments measured or disclosed at fair value as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Assets for which fair values are disclosed: | | | | |
| Cash and cash equivalents | ₩ - | ₩ 8,776,257 | ₩ - | ₩ 8,776,257 |
| Trade receivables | - | - | 25,533,937 | 25,533,937 |
| Other current receivables | - | - | 5,130,405 | 5,130,405 |
| Current held-to-maturity investments | - | 20,340 | - | 20,340 |
| Non-current held-to-maturity investments | - | 12,420 | - | 12,420 |
| Other non-current receivables | - | - | 2,627,103 | 2,627,103 |
| | ₩ - | ₩ 8,809,017 | ₩ 33,291,445 | ₩ 42,100,462 |
| Liabilities | | | | |
| Liabilities for which fair values are disclosed: | | | | |
| Trade payables | ₩ - | ₩ - | ₩ 16,511,985 | ₩ 16,511,985 |
| Other current liabilities | - | - | 10,339,242 | 10,339,242 |
| Other non-current liabilities | - | - | 88,092 | 88,092 |
| Long-term borrowing | - | - | 2,122,222 | 2,122,222 |
| | ₩ - | ₩ - | ₩ 29,061,541 | ₩ 29,061,541 |

## 29. Fair value (cont'd)

| | 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Assets for which fair values are disclosed: | | | | |
| Cash and cash equivalents | ₩ - | ₩ 15,793,716 | ₩ - | ₩ 15,793,716 |
| Trade receivables | - | - | 35,753,497 | 35,753,497 |
| Other current receivables | - | - | 2,658,751 | 2,658,751 |
| Non-current held-to-maturity investments | - | 31,240 | - | 31,240 |
| Other non-current receivables | - | - | 2,395,644 | 2,395,644 |
| | ₩ - | ₩ 15,824,956 | ₩ 40,807,892 | ₩ 56,632,848 |
| Liabilities | | | | |
| Liabilities for which fair values are disclosed: | | | | |
| Trade payables | ₩ - | ₩ - | ₩ 26,210,142 | ₩ 26,210,142 |
| Other current liabilities | - | - | 7,065,971 | 7,065,971 |
| Other non-current liabilities | - | - | 70,353 | 70,353 |
| Long-term borrowing | - | - | 2,053,763 | 2,053,763 |
| | ₩ - | ₩ - | ₩ 35,400,229 | ₩ 35,400,229 |

## 30. Cash flow information

Details of the cash flow from operating activities as of December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Net profit for the year | ₩ | 5,856,778 | ₩ | 14,388,275 |
| Adjustments to reconcile net profit for the year to net cash from operating activities: | | | | |
| Pension expenses | | 932,833 | | 909,956 |
| Depreciation of property, plant and equipment | | 2,678,096 | | 2,505,261 |
| Sales warranty expenses | | 380,155 | | 235,208 |
| Loss on foreign currency translation | | 71,052 | | 191,973 |
| Loss on disposal of property, plant and equipment | | 52,967 | | 6,334 |
| Loss on retirement of inventory | | 39,792 | | 63,470 |
| Interest expense | | 85,843 | | 70,556 |
| Income tax expense | | 1,388,024 | | 3,998,312 |
| Gain on foreign currency translation | | (73,606) | | (131,590) |
| Gain on disposal of property, plant and equipment | | (12,812) | | (7,487) |
| Interest income | | (247,433) | | (229,348) |
| Reversal of allowance for doubtful accounts | | (99,898) | | (24,920) |
| Reversal of allowance for other doubtful accounts | | 18,970 | | (13,318) |
| | | 5,213,983 | | 7,574,407 |
| Changes in operating assets and liabilities: | | | | |
| Increase in trade receivables | | 10,317,348 | | 48,454 |
| Decrease (increase) in other receivables | | (2,547,488) | | 1,494,033 |
| Decrease (increase) in inventories | | 277,561 | | (265,249) |
| Decrease in prepayments | | (8,373,190) | | 14,187,725 |
| Decrease (increase) in prepaid expenses | | (18,478) | | 362,622 |
| Increase (decrease) in trade payables | | (9,696,774) | | 1,154,772 |
| Increase (decrease) in other payables | | 980,361 | | (2,389,027) |
| Increase (decrease) in advance receipts | | 9,917,155 | | (17,709,650) |
| Increase in withholdings | | (278,545) | | 13,404 |
| Increase (decrease) in accrued expenses | | 95,893 | | (1,213,652) |
| Payment of severance and retirement benefits | | (75,519) | | 1,133,256 |
| Increase in plan assets | | (900,000) | | (1,000,000) |
| Increase in other long-term payables | | 17,739 | | 32,004 |
| Decrease in provision for sales warranty | | (382,586) | | (217,092) |
| | | (666,523) | | (4,368,400) |
| Net cash flows from operating activities | ₩ | 10,404,238 | ₩ | 17,594,282 |

### 30. Cash flow information(cont'd)

Significant transactions not involving cash flows for the years ended December 31, 2018 and 2017 are as follows (Korean won in thousands):

| | 2018 | | 2017 | |
|---|---|---|---|---|
| Transfer of construction-in-progress to tangible assets | ₩ | 1,214,500 | ₩ | 600,523 |
| Transfer of guarantee deposits to current portion of guarantee deposits | | (159,775) | | 140,000 |
| Transfer of held-to-maturity investments to current held-to-maturity investments | | 20,340 | | - |
| Deferred tax effect of actuarial gain and loss | | 192,276 | | 14,200 |
| Actuarial gain and loss | | 873,981 | | 64,545 |
| Other payables for acquisition of property, plant and equipment | | 2,181,785 | | 428,831 |

### 31. Commitments and contingencies

As of December 31, 2018, the Company has payment guarantees provided by third parties for its obligations and indebtedness as follows (Korean won in thousands):

| Provider | Description | Guarantee provided to | Guaranteed amount | |
|---|---|---|---|---|
| Seoul Guarantee Insurance Co., Ltd. | Payment guarantee | SOMO Petroleum Co., Ltd. | ₩ | 3,000 |

Off-balance committments that the Company has entered with financial institutions as of December 31, 2018 are as follows (Korean won in thousands, USD):

| Description of commitment | Financial institution | Limit | | Used amount | |
|---|---|---|---|---|---|
| Discounting notes | KEB Hana Bank | ₩ | 5,000,000 | ₩ | - |
| Guarantee of payment against discounted note receivable | KEB Hana Bank | ₩ | 10,000,000 | ₩ | 2,086,185 |

### 32. Approval of financial statements

The accompanying financial statements of the Company for the year ended December 31, 2018 were approved at the Board of Directors' meeting on March 28, 2019 and will be submitted to the Company's annual shareholders' meeting.