

# **HYUNDAI BNG STEEL CO., LTD.**

## **and Subsidiary**

**Consolidated Financial Statements**

**December 31, 2017 and 2016**

# HYUNDAI BNG STEEL CO., LTD. and Subsidiary

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December 31, 2017 and 2016

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## **Independent Auditor's Report**

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of  
HYUNDAI BNG STEEL CO., LTD.

We have audited the accompanying consolidated financial statements of HYUNDAI BNG STEEL CO., LTD. and its subsidiary (collectively refer to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

### ***Management's responsibility for the financial statements***

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

### ***Auditor's responsibility***

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

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

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

***Opinion***

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of HYUNDAI BNG STEEL CO., LTD. and its subsidiary as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Korean IFRS.

***Other Matter***

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

Seoul, Korea  
February 28, 2018

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
**Consolidated Statements of Financial Position**  
**December 31, 2017 and 2016**

| <i>(in Korean won)</i>                              | <b>Notes</b> | <b>2017</b>              | <b>2016</b>              |
|---|--------------|--------------------------|--------------------------|
| <b>Assets</b>                                       |              |                          |                          |
| <b>Current assets</b>                               |              |                          |                          |
| Cash and cash equivalents                           | 7,8          | ₩ 60,443,261,368         | ₩ 50,139,720,795         |
| Trade and other receivables                         | 7,8,9,11,35  | 137,811,655,530          | 148,905,871,972          |
| Other financial assets                              | 7,13         | 15,431,535               | 10,281,735               |
| Other current assets                                | 14,35        | 855,359,421              | 1,046,159,960            |
| Derivative financial assets                         | 5,7,12       | 407,115,369              | 1,637,991,968            |
| Inventories   | 15           | 132,750,001,836          | 112,694,018,340          |
|   |              | <u>332,282,825,059</u>   | <u>314,434,044,770</u>   |
| <b>Non-current assets</b>                           |              |                          |                          |
| Trade and other receivables                         | 7,8,11,35    | 1,638,187,114            | 1,158,052,713            |
| Other financial assets                              | 5,7,8,10,13  | 12,969,626,824           | 5,853,658,750            |
| Property, plant and equipment                       | 16           | 181,023,151,989          | 192,438,846,193          |
| Investment property                                 | 17           | 26,526,149,431           | 27,070,547,800           |
| Intangible assets                                   | 18           | 18,459,718,490           | 17,917,680,216           |
| Deferred income tax assets                          | 23           | 11,666,874,737           | 8,869,905,108            |
|   |              | <u>252,283,708,585</u>   | <u>253,308,690,780</u>   |
| <b>Total assets</b>                                 |              | <u>₩ 584,566,533,644</u> | <u>₩ 567,742,735,550</u> |
| <b>Liabilities</b>                                  |              |                          |                          |
| <b>Current liabilities</b>                          |              |                          |                          |
| Trade and other payables                            | 4,7,19,35    | ₩ 75,491,555,471         | ₩ 55,768,436,825         |
| Other financial liabilities                         | 4,7,9,20     | 78,750,577,997           | 73,368,154,103           |
| Other current liabilities                           | 21,35        | 1,806,448,946            | 3,112,962,940            |
| Derivative financial liabilities                    | 4,5,7,12     | 983,821,722              | -                        |
| Current tax liabilities                             |              | 5,628,626,468            | 5,327,745,580            |
|   |              | <u>162,661,030,604</u>   | <u>137,577,299,448</u>   |
| <b>Non-current liabilities</b>                      |              |                          |                          |
| Trade and other payables                            | 4,7,19       | 275,229,884              | 200,000,000              |
| Other financial liabilities                         | 4,5,7,20     | 29,939,570,832           | 59,806,575,142           |
| Other provision                                     | 24,25        | 11,065,400,882           | 8,907,772,387            |
| Net defined benefit liabilities                     | 22           | 15,591,224,691           | 14,046,831,818           |
|   |              | <u>56,871,426,289</u>    | <u>82,961,179,347</u>    |
| <b>Total liabilities</b>                            |              | <u>219,532,456,893</u>   | <u>220,538,478,795</u>   |
| <b>Equity attributable to owners of the Company</b> |              |                          |                          |
| Share capital                                       | 1,26         | 75,943,315,000           | 75,943,315,000           |
| Capital surplus                                     |              | 992,775,657              | 992,775,657              |
| Other components of equity                          | 28           | 29,629,999               | 31,709,755               |
| Retained earnings                                   | 27           | 288,068,356,095          | 270,236,456,343          |
|   |              | <u>365,034,076,751</u>   | <u>347,204,256,755</u>   |
| <b>Non-controlling interest</b>                     |              | -                        | -                        |
| <b>Total equity</b>                                 |              | <u>365,034,076,751</u>   | <u>347,204,256,755</u>   |
| <b>Total liabilities and equity</b>                 |              | <u>₩ 584,566,533,644</u> | <u>₩ 567,742,735,550</u> |

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

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2017 and 2016**

| <i>(in Korean won)</i>  | Notes    | 2017              | 2016              |
|---|----------|-------------------|-------------------|
| <b>Revenue</b>  | 6,35     | ₩ 725,853,867,852 | ₩ 660,807,586,778 |
| <b>Cost of sales</b>  | 29,35    | 658,116,819,878   | 589,191,075,715   |
| <b>Gross profit</b>   |          | 67,737,047,974    | 71,616,511,063    |
| Selling, general and administrative expenses  | 29,30,35 | 27,023,235,228    | 26,287,853,646    |
| Distribution costs  | 29,35    | 9,970,117,765     | 8,985,979,597     |
| <b>Operating profit</b>   |          | 30,743,694,981    | 36,342,677,820    |
| Other income  | 31,35    | 8,485,989,903     | 10,044,632,360    |
| Other expenses  | 31,35    | 10,599,386,468    | 12,933,191,160    |
| Finance income  | 32       | 4,695,056,957     | 2,735,436,068     |
| Finance costs   | 32       | 4,732,269,488     | 7,125,547,030     |
| Share of net profit of associates   |          | -                 | 49,889,224        |
| Profit before income tax  |          | 28,593,085,885    | 29,113,897,282    |
| Income tax expense  | 23       | 8,828,500,978     | 7,237,840,509     |
| <b>Profit for the year</b>  |          | 19,764,584,907    | 21,876,056,773    |
| <b>Other comprehensive income</b>   |          |                   |                   |
| Items that will not be reclassified to profit or loss   |          |                   |                   |
| Remeasurements of net defined benefit liabilities   | 23       | (408,326,255)     | 503,989,236       |
| Items that may be reclassified subsequently to profit or loss   |          |                   |                   |
| Changes in the fair value of available-for-sale financial assets  | 23       | 11,992,871        | 564,965,376       |
| Share of other comprehensive income of associates   | 23       | -                 | (268,459,688)     |
| Exchange differences on translation of foreign operations   |          | (14,072,627)      | 31,709,755        |
|   |          | (410,406,011)     | 832,204,679       |
| <b>Total comprehensive income for the year</b>  |          | ₩ 19,354,178,896  | ₩ 22,708,261,452  |
| <b>Profit for the year</b>  |          |                   |                   |
| <b>Attributable to:</b>   |          |                   |                   |
| Equity holders of the Controlling Company   |          | ₩ 19,764,584,907  | ₩ 21,876,056,773  |
| Non-controlling interest  |          | -                 | -                 |
|   |          | ₩ 19,764,584,907  | ₩ 21,876,056,773  |
| <b>Total comprehensive income for the year</b>  |          |                   |                   |
| <b>Attributable to:</b>   |          |                   |                   |
| Equity holders of the Controlling Company   |          | ₩ 19,354,178,896  | ₩ 22,708,261,452  |
| Non-controlling interest  |          | -                 | -                 |
|   |          | ₩ 19,354,178,896  | ₩ 22,708,261,452  |
| <b>Basic earnings per share attributable to the equity holders of the Controlling Company during the year</b> |          |                   |                   |
| Basic earnings per ordinary share   | 33       | ₩ 1,301           | ₩ 1,440           |
| Basic earnings per preferred share  | 33       | 1,351             | 1,490             |

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

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2017 and 2016**

|  | Attributable to equity holders of the Controlling Company |                 |                            |                   |                   | Non-controlling interest | Total equity      |
|--|---|-----------------|----------------------------|-------------------|-------------------|--------------------------|-------------------|
|  | Shate capital   | Capital surplus | Other components of equity | Retained earnings | Total             |                          |                   |
| <i>(in Korean won)</i>   |   |                 |                            |                   |                   |                          |                   |
| <b>Balance at January 1, 2016</b>                                    | ₩ 75,943,315,000  | ₩ 992,775,657   | ₩ (296,505,688)            | ₩ 247,856,410,334 | ₩ 324,495,995,303 | ₩ -                      | ₩ 324,495,995,303 |
| <b>Total comprehensive income :</b>                                  |   |                 |                            |                   |                   |                          |                   |
| Profit for the year  | -   | -               | -                          | 21,876,056,773    | 21,876,056,773    | -                        | 21,876,056,773    |
| Remeasurements of net defined benefit liabilities                    | -   | -               | -                          | 503,989,236       | 503,989,236       | -                        | 503,989,236       |
| Change in value of available-for-sale financial assets               | -   | -               | 564,965,376                | -                 | 564,965,376       | -                        | 564,965,376       |
| Share of other comprehensive loss of associates                      | -   | -               | (268,459,688)              | -                 | (268,459,688)     | -                        | (268,459,688)     |
| Exchange differences on translation of foreign operations            | -   | -               | 31,709,755                 | -                 | 31,709,755        | -                        | 31,709,755        |
| <b>Balance at December 31, 2016</b>                                  | ₩ 75,943,315,000  | ₩ 992,775,657   | ₩ 31,709,755               | ₩ 270,236,456,343 | ₩ 347,204,256,755 | ₩ -                      | ₩ 347,204,256,755 |
| <b>Balance at January 1, 2017</b>                                    | ₩ 75,943,315,000  | ₩ 992,775,657   | ₩ 31,709,755               | ₩ 270,236,456,343 | ₩ 347,204,256,755 | ₩ -                      | ₩ 347,204,256,755 |
| <b>Total comprehensive income :</b>                                  |   |                 |                            |                   |                   |                          |                   |
| Profit for the year  | -   | -               | -                          | 19,764,584,907    | 19,764,584,907    | -                        | 19,764,584,907    |
| Remeasurements of net defined benefit liabilities                    | -   | -               | -                          | (408,326,255)     | (408,326,255)     | -                        | (408,326,255)     |
| Change in value of available-for-sale financial assets               | -   | -               | 11,992,871                 | -                 | 11,992,871        | -                        | 11,992,871        |
| Exchange differences on translation of foreign operations            | -   | -               | (14,072,627)               | -                 | (14,072,627)      | -                        | (14,072,627)      |
| <b>Transactions with equity holders of the Controlling Company :</b> |   |                 |                            |                   |                   |                          |                   |
| Annual dividends   | -   | -               | -                          | (1,524,358,900)   | (1,524,358,900)   | -                        | (1,524,358,900)   |
| <b>Balance at December 31, 2017</b>                                  | ₩ 75,943,315,000  | ₩ 992,775,657   | ₩ 29,629,999               | ₩ 288,068,356,095 | ₩ 365,034,076,751 | ₩ -                      | ₩ 365,034,076,751 |

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

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

| <i>(in Korean won)</i>  | <b>Notes</b> | <b>2017</b>             | <b>2016</b>             |
|---|--------------|-------------------------|-------------------------|
| <b>Cash flows from operating activities</b>                   |              |                         |                         |
| Cash generated from operations                                | 34           | ₩ 65,408,617,641        | ₩ 78,757,032,224        |
| Interest received   |              | 607,241,852             | 636,936,489             |
| Interest paid   |              | (3,311,667,411)         | (3,926,949,902)         |
| Dividends received  |              | 1,000,000               | 1,000,000               |
| Income tax paid   |              | (11,205,535,087)        | (3,287,164,024)         |
| <b>Net cash inflow from operating activities</b>              |              | <b>51,499,656,995</b>   | <b>72,180,854,787</b>   |
| <b>Cash flows from investing activities</b>                   |              |                         |                         |
| Decrease in long-term financial instruments                   |              | 1,000,000               | -                       |
| Increase in long-term loans                                   |              | -                       | (20,000,000)            |
| Decrease in long-term loans                                   |              | 109,000,000             | 124,000,000             |
| Acquisition of investments in associates                      |              | -                       | (297,000,000)           |
| Proceeds from sale of investments in associates               |              | -                       | 206,250,000             |
| Acquisition of investment bonds                               |              | (5,000,000,000)         |                         |
| Acquisition of property, plant and equipment                  | 16           | (8,450,517,845)         | (7,859,098,264)         |
| Proceeds from sale of property, plant and equipment           | 16           | 28,009,091              | 1,391,038,800           |
| Acquisition of intangible assets                              | 18           | (1,324,636,400)         | (325,200,000)           |
| Proceeds from sale of intangible assets                       |              | 600,000,000             | -                       |
| Acquisition of available-for-sale financial assets            | 18           | (399,214,663)           | -                       |
| Proceeds from sale of available-for-sale financial assets     |              | -                       | 37,349,606              |
| Acquisition of derivative financial assets                    |              | (600,790,337)           |                         |
| Increase in deposits provided                                 |              | (1,840,358,000)         | (481,500,000)           |
| Decrease in deposits provided                                 |              | 29,200,000              | 630,000,000             |
| <b>Net cash outflow from investing activities</b>             |              | <b>(16,848,308,154)</b> | <b>(6,594,159,858)</b>  |
| <b>Cash flows from financing activities</b>                   |              |                         |                         |
| Increase in short-term borrowings                             |              | 363,584,669,111         | 158,270,967,891         |
| Repayments of short-term borrowings                           |              | (356,368,183,653)       | (187,693,402,013)       |
| Repayments of current portion of long-term borrowings         |              | -                       | (5,977,450,000)         |
| Proceeds from issuance of bonds                               |              | -                       | 29,846,930,000          |
| Repayments of current portion of bonds                        |              | (30,000,000,000)        | (60,000,000,000)        |
| Payment of dividends  |              | (1,524,358,900)         | -                       |
| <b>Net cash outflow from financing activities</b>             |              | <b>(24,307,873,442)</b> | <b>(65,552,954,122)</b> |
| <b>Net increase in cash and cash equivalents</b>              |              | <b>10,343,475,399</b>   | <b>33,740,807</b>       |
| Cash and cash equivalents at the beginning of year            |              | 50,139,720,795          | 50,073,583,042          |
| Effects of exchange rate changes on cash and cash equivalents |              | (39,934,826)            | 32,396,946              |
| <b>Cash and cash equivalents at the end of year</b>           |              | <b>₩ 60,443,261,368</b> | <b>₩ 50,139,720,795</b> |

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



# HYUNDAI BNG STEEL CO., LTD. and Subsidiary

## Notes to the Consolidated Financial Statements

### December 31, 2017 and 2016

#### 1. General Information

General information of HYUNDAI BNG STEEL CO., LTD. (the "Company" or the "Controlling Company") and its subsidiary (collectively referred as the "Group") in accordance with Korean IFRS 1110 Consolidated Financial Statements, is as follows:

The Company was established on April 7, 1966, under the Commercial Law of the Republic of Korea, to manufacture and sell steel products. On March 15, 2002, the Company changed its name from Sammi Special Steel Co., Ltd. to BNG Steel Co., Ltd. and later changed its name to HYUNDAI BNG STEEL CO., LTD. on March 11, 2011 with the resolution at the shareholders' general meeting.

On March 24, 1987, the Company listed its stock on the Korea Exchange. As at December 31, 2017, the share capital of the Company amounts to ₩ 75,943 million after several capital increases and decreases, and the largest shareholder is Hyundai Steel Co., Ltd. with percentage of ownership of 41.12%.

#### 1.1 Consolidated Subsidiary

Details of the consolidated subsidiary as at December 31, 2017 and 2016, are as follows:

|                             | Location | Percentage of ownership (%) |        | Closing month | Main business   |
|-----------------------------|----------|-----------------------------|--------|---------------|---|
|                             |          | 2017                        | 2016   |               |   |
| HYUNDAI BNG STEEL USA, INC. | USA      | 100.00                      | 100.00 | December      | Selling of steel products, management consulting and others |

#### 1.2 Summarized Financial Information

Summarized financial information for consolidated subsidiary as at and for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

| Subsidiary                  | 2017        |             |          |             |                            |                            |
|-----------------------------|-------------|-------------|----------|-------------|----------------------------|----------------------------|
|                             | Assets      | Liabilities | Equity   | Sales       | Profit (Loss) for the year | Total comprehensive income |
| HYUNDAI BNG STEEL USA, INC. | ₩ 1,436,197 | ₩1,279,644  | ₩156,553 | ₩ 1,364,930 | ₩ 86,792                   | ₩ 72,719                   |

(in thousands of Korean won)

| Subsidiary                  | 2016     |             |          |           |                            |                                   |
|-----------------------------|----------|-------------|----------|-----------|----------------------------|-----------------------------------|
|                             | Assets   | Liabilities | Equity   | Sales     | Profit (Loss) for the year | Total comprehensive income (loss) |
| HYUNDAI BNG STEEL USA, INC. | ₩ 87,223 | ₩ 3,390     | ₩ 83,833 | ₩ 146,687 | ₩ (151,596)                | ₩ (119,887)                       |

# HYUNDAI BNG STEEL CO., LTD. and Subsidiary

## Notes to the Consolidated Financial Statements

### December 31, 2017 and 2016

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## 2. Significant Accounting Policies

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

### 2.1 Basis of Preparation

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

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

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

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

### 2.2 Changes in Accounting Policy and Disclosures

#### *(a) New and amended standard adopted by the Group*

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

#### *- Amendments to Korean IFRS 1007 Statement of Cash Flows*

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows (Note 34).

#### *- Amendments to Korean IFRS 1012 Income Tax*

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

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
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requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

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

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

*(b) New standards and interpretations not yet adopted by the Company*

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

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

The amendments clarify that an entity shall make this election separately for each associate of joint venture, at initial recognition of the associate or joint venture. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the financial statements because the Group is not a venture capital organization.

- Amendment to Korean IFRS 1040 *Transfers of Investment Property*

Paragraph 57 of Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and provides a list of circumstances as examples. The amendment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendment to have a significant impact on the financial statements.

- Amendments to Korean IFRS 1102 *Share-based Payment*

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the amendments to have a significant impact on the financial statements.

- Enactment of Interpretation 2122 *Foreign Currency Transaction and Advance Consideration*

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance,

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2017 and 2016**

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the entity shall determine a date of the transaction for each payment or receipt of advance consideration. The enactment will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactments to have a significant impact on the financial statements.

- Enactment of Korean IFRS 1116 *Leases*

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

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

As practical expedient, the entity elected to apply Korean IFRS only to contracts entered into (or changed) on or after the date of initial application.

For a contract that is, or contains, a lease, the entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease (a lease term of 12 months or less at the commencement date) and low value assets (e.g. underlying assets below \$ 5,000). In addition, as a practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

*Lessee accounting*

A lessee shall apply this standard to its leases either:

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

The Group has not yet elected the application method.

The Group did not analyze the financial effects of applying Korean IFRS 1116 as at December 31, 2017.

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*Lessor accounting*

The Group has not yet elected the application method and did not analyze the financial effects of applying Korean IFRS 1116 as at December 31, 2017- Enactment of Korean IFRS 1109 *Financial Instruments*

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

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

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

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

As at December 31, 2017, the Group neither prepared for internal management process nor began to adjust accounting system in relation to implementation of Korean IFRS 1109. Also, the Group did not analyze the financial effects of applying the standard.

*(a) Classification and measurement of financial assets*

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

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

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

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

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

As at December 31, 2017, the Group owns loans and receivables of ₩ 211,517 million, financial assets available-for-sales of ₩ 1,361 million and financial assets at fair value through profit or loss of ₩ 407 million.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2017, the Group measured loans and receivables of ₩ 211,517 million at amortized costs.

Based on results from the impact assessment of Korean IFRS 1109, if Korean IFRS 1109 is applied for the above debt instruments classified as financial assets available-for-sale, the Group expects the majority of the financial assets to be measured at fair value through other comprehensive income. The Group has no debt instruments classified as available-for-sale financial assets as at December 31, 2017.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Group can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at December 31, 2017, the Group holds equity instruments of ₩ 1,361 million classified as financial assets available-

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for-sale and there is no amount recycled unrealized gain or loss arose from the equity instruments to profit or loss.

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

As at December 2017, the Group holds equity instruments classified as financial assets at fair value through profit or loss that amount to ₩ 407 million.

#### *(b) Classification and measurement of financial liabilities*

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

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result profit or loss from fair value movements may decrease. As at December 31, 2017, the Group did not designated financial liabilities financial liabilities at fair value through profit or loss.

#### *(c) Impairment: financial assets and contract assets*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under Korean IFRS 1039. It applies to financial assets classified at amortized cost, debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

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

| Stage <sup>1</sup> |   | Loss allowance   |
|--------------------|---|--|
| 1                  | No significant increase in credit risk after initial recognition <sup>2</sup> | 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) |
| 2                  | Significant increase in credit risk after initial recognition                 | Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)  |
| 3                  | Credit-impaired   |  |

<sup>1</sup> A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit

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

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

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As at December 31, 2017, the Group owns debt investment carried at amortized cost of ₩ 211,517 million (loans and receivables of ₩ 211,517 million). And, the Group recognized loss allowance of ₩ 585 million for these assets.

*(d) Hedge accounting*

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

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

As at December 31, 2017, the Group does not apply the hedge accounting to its assets, liabilities, firm commitments and forecast transactions.

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

*- Enactment of Korean IFRS 1115 Revenue from Contracts with Customers*

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



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*of Real Estate and Interpretation 2118 Transfers of assets from customers.*

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

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

Identify contracts with customers

Identify the separate performance obligation

Determine the transaction price of the contract

Allocate the transaction price to each of the separate performance obligations, and

Recognize the revenue as each performance obligation is satisfied.

Since September 2017, the Group selected an external accounting firm to prepare for the adoption of Korean IFRS 1115, and analyzed the profit structure of the Group with the help of an accounting firm. Korean IFRS 1115 is expected to affect not only accounting but also overall business practices including product sales strategy and business behavior. Therefore, the Group is training their employees on the changes resulting from the adoption of the new standards, and periodically reports the implementation plans and progress to management.

Based on the Group's circumstances and available information as of December 31, 2017, the impact of the first-time adoption of the Standard is as follows:

*(a) Identify performance obligation*

The Group is engaged in the production and sales of various steel sheets and is a single operating segment. When applying Korean IFRS 1115, there are separate obligations to perform export sales contracts with customers: (1) sales of products, (2) marine transportation services, and (3) insurance services. The timing of recognizing a Group's revenue may change depending on whether each performance obligation is fulfilled at one time or over a period of time. Since the Group is obligated to provide marine transportation and insurance services to customers during the term of the contract, the Group will recognize these obligations as separate income.

*(b) Variable consideration*

The Group operates a price compensation system for claims that are filed after delivery of the

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product to the customer. A price compensation system correspond to variable consideration in Korean IFRS 1115 and is estimated at the inception of the contract and must be reviewed at a later date. In applying IFRS 1115, the Group will estimate an amount of variable consideration by using the expected value method that the Group expects to better predict the amount of consideration to which it will be entitled and will recognize revenue with the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

### 2.3 Consolidation

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

#### (a) Subsidiaries

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

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

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

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

#### (b) Associates

Associates are entities over which the Group has significant influence, and investments in associates are initially recognized at acquisition cost using the equity method. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is an objective evidence of impairment for the investment in the associate is

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impaired, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

*(c) Joint arrangements*

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator has rights to the assets, and obligations for the liabilities, relating to the joint operation and recognizes the assets, liabilities, revenues and expenses relating to its interest in a joint operation. A joint venturer has rights to the net assets relating to the joint venture and accounts for that investment using the equity method.

**2.4 Foreign Currency Translation**

*(a) Functional and presentation currency*

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

*(b) Transactions and balances*

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

Exchange differences arising on non-monetary financial assets and liabilities such as equity instruments at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss and included in other comprehensive income, respectively, as part of the fair value gain or loss.

**2.5 Financial Assets**

*(a) Classification and measurement*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity financial assets. Regular purchases and sales of financial assets are recognized on trade date.

At initial recognition, financial assets are measured at fair value plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs. Transaction costs of financial assets carried at fair value through profit or loss are expensed. After the initial recognition, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables, and held-to-maturity investments are subsequently carried at amortized cost using the effective interest rate method.

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Changes in fair value of financial assets at fair value through profit or loss are recognized in profit or loss and changes in fair value of available-for-sale financial assets are recognized in other comprehensive income. When the available-for-sale financial assets are sold or impaired, the fair value adjustments recorded in equity are reclassified into profit or loss.

*(b) Impairment*

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

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

The objective evidence that a financial asset is impaired includes significant financial difficulty of the issuer or obligor; a delinquency in interest or principal payments over three months; or the disappearance of an active market for that financial asset because of financial difficulties. A decline in the fair value of an available-for-sale equity instrument by significant and a prolonged decline below its cost is also objective evidence of impairment.

*(c) Derecognition*

If the Group transfers a financial asset and the transfer does not result in derecognition because the Group has retained substantially of all risks and rewards of ownership of the transferred asset due to a recourse in the event the debtor defaults, the Group continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The related financial liability is classified as 'other financial liabilities' in the statement of financial position.

*(d) Offsetting of financial instruments*

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

**2.6 Derivative Instruments**

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of the derivatives that are not qualified for hedge accounting are recognized in the statement of comprehensive income within 'other income (expenses)' according to the nature of transactions.

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**2.7 Inventories**

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

**2.8 Property, Plant and Equipment**

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

| <b>Estimated useful lives</b> |               |
|-------------------------------|---------------|
| Buildings and Structures      | 25 - 50 years |
| Machinery                     | 10 - 20 years |
| Other                         | 5 - 6 years   |

The depreciation method, residual values and useful lives of property, plant and equipment are reviewed at the end of each reporting period and, if appropriate, accounted for as changes in accounting estimates.

**2.9 Borrowing Costs**

Borrowing costs incurred in the acquisition or construction of a qualifying asset are capitalized in the period when it is prepared for its intended use, and investment income earned on the temporary investment of borrowings made specifically for the purpose obtaining a qualifying asset is deducted from the borrowing costs eligible for capitalization during the period. Other borrowing costs are recognized as expenses for the period in which they are incurred.

**2.10 Intangible Assets**

Intangible assets are stated at cost, which includes acquisition cost, production cost and other costs required to prepare the asset for its intended use. Intangible assets are included in goodwill, membership rights and other intangible assets. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. Intangible assets with definite useful life that are amortized using the straight-line method over their estimated useful lives, are as follows:

| <b>Estimated useful lives</b> |         |
|-------------------------------|---------|
| Other intangible assets       | 5 years |

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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. For intangible assets with indefinite useful lives, useful lives are reviewed annually, and if appropriate to change, it is treated as changes in accounting estimate.

**2.11 Investment Property**

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. Investment property, except for land, is depreciated using the straight-line method over their useful lives from 25 to 50 years.

**2.12 Impairment of Non-financial Assets**

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

**2.13 Financial Liabilities**

*(a) Classification and measurement*

Financial liabilities at fair value through profit or loss are financial instruments held for trading. Financial liabilities are classified in this category if incurred principally for the purpose of repurchasing them in the near term. Derivatives that are not designated as hedges or bifurcated from financial instruments containing embedded derivatives are also categorized as held-for-trading.

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

*(b) Derecognition*

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

**2.14 Current and Deferred Tax**

The tax expense for the period consists of current and deferred tax. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other

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comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

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

Deferred tax is recognized for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts as expected tax consequences at the recovery or settlement of the carrying amounts of the assets and liabilities. However, deferred tax assets and liabilities are not recognized if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## **2.15 Employee Benefits**

The Group operates defined benefit plans.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds and that have terms to maturity approximating to the terms of the related pension obligation. The remeasurements of the net defined benefit liability are recognized in other comprehensive income.

If any plan amendments, curtailments, or settlements occur, past service costs or any gains or

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losses on settlement are recognized as profit or loss for the year.

Certain entities within the Group provide long-term employee benefits that are entitled to employees with service period for 10 years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Group recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by an independent qualified actuary.

**2.16 Provisions**

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the increase in the provision due to passage of time is recognized as interest expense.

**2.17 Revenue Recognition**

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

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

*(a) Sales of goods*

Revenue from the sale of goods is recognized when products are delivered to the purchaser.

*(b) Interest income*

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

*(c) Dividend income*

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

**2.18 Lease**

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



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line basis over the period of lease.

#### **2.19 Government Grants**

Government grants are recognized at their fair values when there is reasonable assurance that the grant will be received and the Group will comply with the conditions attaching to it. Government grants related to assets are presented by deducting the grants in arriving at the carrying amount of the assets, and grants related to income are deferred and presented by deducting the related expenses for the purpose of the government grants.

#### **2.20 Operating Segments**

Information of each operating segment is reported in a manner consistent with the business segment reporting provided to the chief operating decision-maker (Note 6). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

#### **2.21 Approval of Issuance of the Financial Statements**

The issuance of the December 31, 2017 financial statements of the Group was approved by the Board of Directors on January 29, 2018, which is subject to change with approval at the annual shareholder's meeting.

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

The Group makes estimates and assumptions concerning the future. The estimates and assumptions are continuously evaluated with consideration to factors such as events reasonably predictable in the foreseeable future within the present circumstance according to historical experience. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### *(a) Estimated impairment of goodwill*

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

#### *(b) Income taxes*

The Group is operating in numerous countries and the income generated from these operations is subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain.

If certain portion of the taxable income is not used for investments, increase in wages, or dividends in accordance with the Tax System For Recirculation of Corporate Income, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2016. Accordingly, the measurement of current and deferred income tax is affected by the

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tax effects from the new system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

*(c) Fair value of financial instruments*

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

*(d) Net defined benefit liability*

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 22).

**4. Financial Risk Management**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by the finance team and the sales support team in accordance with the Group's policies and they identify, evaluate and hedge financial risks through intimate co-operation with other teams within the Group.

*(a) Market risk*

*i) Foreign exchange risk*

The Group's payments on import, denominated in foreign currencies, exceed foreign currency denominated sales. Export sales are mainly transacted in US dollars, and certain Euro and the Japanese yen received are in general immediately exchanged into US dollars, and used for payments for imports. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

The Group's primarily foreign exchange risk management policy is to match the balance of foreign currency denominated receivables and payables in order to mitigate the associated foreign exchange risk arising. Secondly, the Group manages foreign exchange risk to the level acceptable in comparison to the Group's financial performances.

With the objective to realize sound and stable financial structure, the Group ensures effective foreign exchange risk management by exchanging information on foreign exchange risk management with financial institutions and establishing foreign currency management controls prohibiting speculative foreign currency transactions.

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At the end of the reporting periods, if the currency had weakened/strengthened by 5% against the US dollar and the Euro with all other variables held constant, pre-tax profit for the years would have been affected as follows:

| <i>(in thousands of Korean won)</i>                       |   | <b>2017</b> |   | <b>2016</b> |
|---|---|-------------|---|-------------|
| Financial assets denominated in foreign currencies        | ₩ | 30,943,461  | ₩ | 14,526,416  |
| Financial liabilities denominated in foreign currencies   |   | 53,384,398  |   | 46,195,830  |
| Impact on pre-tax profit if exchange rates increase by 5% |   | (1,122,047) |   | (1,583,471) |
| Impact on pre-tax profit if exchange rates decrease by 5% |   | 1,122,047   |   | 1,583,471   |

*ii) Price risk*

The Group is insignificantly exposed to price risk of equity securities classified as available-for-sale securities in consolidated statement of financial position. Equity securities held by the Group are not publicly traded.

If the price had increased or decreased by 10%, the Group's equity would have been increased or decreased by ₩ 105 million and ₩ 73 million as at December 31, 2017 and 2016, respectively.

*iii) Interest rate risk*

Interest rate risk may be defined as a risk that fair value recognized in the statement of financial position or future interest income/expense cash flows from investing and financing activities fluctuate because of changes in market interest rates and for the Group, such interest rate risk mainly arises in relation to variable interest borrowings. In order to mitigate uncertainty associated with the changes in interest rate and minimize finance costs, the Group maintains certain portion of borrowings at fixed rate. The Group also manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps.

As at December 31, 2017, the total borrowings (including bonds payable) of ₩ 108,690 million at fixed rate are not exposed to interest rate risk.

*(b) Credit risk*

Credit risk arises from the Group's regular transactions and investment activities when the counterparty fails to meet requirements. To manage those risks, the Group regularly re-evaluates financial creditability of the counterparty based on their financial position and past experiences, and holds collateral rights for the majority of the counterparty. In addition, the Group receives reports on recovery of financial assets and has follow up policies.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties

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with a minimum rating of 'A' are accepted. When opening a new deposits account which is open to credit risk, such as trust deposits, approvals of the director of finance department and CEO must be obtained.

As at December 31, 2017, the maximum exposure to credit risk of cash and cash equivalents (excluding cash on hand amounting to ₩ 31 million), trade and other receivables (including non-current receivables), other financial assets (including non-current financial assets, excluding available-for-sale equity instruments amounting to ₩ 1,361 million) are equal to their carrying amount.

*(c) Liquidity risk*

The Group is exposed to liquidity risks which may arise when financial liabilities are settled by delivering cash or other financial instruments. The Group maintains short-term and long-term liquidity management plans, constantly monitors difference between budget and the actual amount of cash outflows that the Group is able to match the term structure of financial liabilities and financial assets.

The analyses of the Group's liquidity risk as at December 31, 2017 and 2016, are as follows. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest amount at face value.

*(in thousands of Korean won)*

|   | <b>2017</b>                 |                                       |                     |                      |
|---|-----------------------------|---------------------------------------|---------------------|----------------------|
|   | <b>Less than 1<br/>year</b> | <b>Between 1 year<br/>and 5 years</b> | <b>Over 5 years</b> | <b>Total</b>         |
| Trade and other payables                      | ₩ 75,491,555                | ₩ 50,000                              | ₩ 225,230           | ₩ 75,766,785         |
| Other financial liabilities                   | 80,122,178                  | 30,121,140                            | -                   | 110,243,318          |
| Derivative financial liabilities <sup>1</sup> | 983,822                     | -                                     | -                   | 983,822              |
|   | <u>₩ 156,597,555</u>        | <u>₩ 30,171,140</u>                   | <u>₩ 225,230</u>    | <u>₩ 186,993,925</u> |

<sup>1</sup> The fair value of derivative financial liabilities amounting to ₩ 984 million is included in the 3-month period bucket because its contractual maturity is not necessary to understand the timing of the cash flow of the derivatives. These derivative contracts are managed on a fair value basis rather than the maturity.

*(in thousands of Korean won)*

|                             | <b>2016</b>                 |                                       |                     |                      |
|-----------------------------|-----------------------------|---------------------------------------|---------------------|----------------------|
|                             | <b>Less than 1<br/>year</b> | <b>Between 1 year<br/>and 5 years</b> | <b>Over 5 years</b> | <b>Total</b>         |
| Trade and other payables    | ₩ 55,768,437                | ₩ 200,000                             | ₩ -                 | ₩ 55,968,437         |
| Other financial liabilities | 75,336,941                  | 61,263,867                            | -                   | 136,600,808          |
|                             | <u>₩ 131,105,378</u>        | <u>₩ 61,463,867</u>                   | <u>₩ -</u>          | <u>₩ 192,569,245</u> |

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(d) Capital risk management

The Group's objective in managing capital is to maintain a sound capital structure. The Group monitors capital on the basis of the debt ratio. This ratio is calculated as total liabilities divided by total capital.

| <i>(in thousands of Korean won)</i> | <b>December 31, 2017</b> |             | <b>December 31, 2016</b> |             |
|-------------------------------------|--------------------------|-------------|--------------------------|-------------|
| Total liabilities (a)               | ₩                        | 219,532,457 | ₩                        | 220,538,479 |
| Total capital (b)                   |                          | 365,034,077 |                          | 347,204,257 |
| Debt ratio (a/b)                    |                          | 60.1 %      |                          | 63.5 %      |

**5. Fair Value**

**5.1 Fair Value of Financial Instruments by Category**

Carrying amount and fair value of financial instruments by category as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i>              | <b>2017</b>            |                   | <b>2016</b>            |                   |
|--|------------------------|-------------------|------------------------|-------------------|
|  | <b>Carrying amount</b> | <b>Fair value</b> | <b>Carrying amount</b> | <b>Fair value</b> |
| Financial assets                                 |                        |                   |                        |                   |
| Other financial assets(non-current) <sup>1</sup> | ₩ 1,336,679            | ₩ 1,336,679       | ₩ 921,869              | ₩ 921,869         |
| Derivative financial assets                      | 407,115                | 407,115           | 1,637,992              | 1,637,992         |
| Financial liabilities                            |                        |                   |                        |                   |
| Other financial liabilities(non-current)         | 29,939,571             | 29,870,045        | 59,806,575             | 59,606,645        |
| Derivative financial liabilities                 | 983,822                | 983,822           | -                      | -                 |

<sup>1</sup> Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.

Financial instruments excluding the above financial assets and liabilities whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

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**5.2 Financial Instruments Measured at Cost**

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

| <i>(in thousands of Korean won)</i> |   | 2017            | 2016            |
|-------------------------------------|---|-----------------|-----------------|
| Other financial assets(non-current) |   |                 |                 |
| Unlisted stocks                     | S&M MEDIA CO., LTD.                         | ₩ 20,000        | ₩ 20,000        |
|                                     | The Kyungnam Shinmun Co., Ltd. <sup>1</sup> | 4,435           | 4,435           |
|                                     |   | <u>₩ 24,435</u> | <u>₩ 24,435</u> |

<sup>1</sup> An impairment loss of ₩ 26 million is recognized in 2016.

The above financial instruments are measured at cost because these instruments do not have a quoted prices in an active market and fair values cannot be measured reliably.

**5.3 Fair Value Hierarchy**

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

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

Fair value hierarchy classifications of the financial assets and financial liabilities that are measured at fair value as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> |   | 2017    |         |               |             |
|-------------------------------------|---|---------|---------|---------------|-------------|
|                                     |   | Level 1 | Level 2 | Level 3       | Total       |
| Recurring fair value measurements   |   |         |         |               |             |
| Other financial assets, non-current | ₩ | -       | ₩       | - ₩ 1,336,679 | ₩ 1,336,679 |
| Derivative financial assets         |   | -       | -       | 407,115       | 407,115     |
| Derivative financial liabilities    |   | -       | 983,822 | -             | 983,822     |

  

| <i>(in thousands of Korean won)</i> |   | 2016    |           |             |           |
|-------------------------------------|---|---------|-----------|-------------|-----------|
|                                     |   | Level 1 | Level 2   | Level 3     | Total     |
| Recurring fair value measurements   |   |         |           |             |           |
| Other financial assets, non-current | ₩ | -       | ₩         | - ₩ 921,869 | ₩ 921,869 |
| Derivative financial assets         |   | -       | 1,637,992 | -           | 1,637,992 |

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**5.4 Valuation Techniques and the Inputs**

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

*(in thousands of Korean won)*

|                                   |                   |              |  | <b>2017</b>                 |                       |
|-----------------------------------|-------------------|--------------|--|-----------------------------|-----------------------|
|                                   | <b>Fair value</b> | <b>Level</b> |  | <b>Valuation techniques</b> | <b>Level 3 Inputs</b> |
| Other financial assets            |                   |              |  |                             |                       |
| Equity investments                | ₩ 1,336,679       | 3            |  | Profit approach             | Discount rate         |
| Derivative financial assets       |                   |              |  |                             |                       |
| Embedded derivatives <sup>1</sup> | 407,115           | 3            |  | Profit approach             | Price volatility      |
| Derivative financial liabilities  |                   |              |  |                             |                       |
| Currency forward                  | 983,822           | 2            |  | Profit approach             | N/A                   |

<sup>1</sup> Amount equivalent to conversion right of redeemable convertible preference shares acquired during 2017.

*(in thousands of Korean won)*

|                             |                   |              |  | <b>2016</b>                 |                       |
|-----------------------------|-------------------|--------------|--|-----------------------------|-----------------------|
|                             | <b>Fair value</b> | <b>Level</b> |  | <b>Valuation techniques</b> | <b>Level 3 Inputs</b> |
| Other financial assets      |                   |              |  |                             |                       |
| Equity investments          | ₩ 921,869         | 3            |  | Profit approach             | Discount rate         |
| Derivative financial assets |                   |              |  |                             |                       |
| Currency forward            | 1,637,992         | 2            |  | Profit approach             | N/A                   |

**5.5 Valuation Processes for Fair Value Measurements Categorized Within Level 3**

The Group operates an accounting team that performs the fair value measurements required for financial reporting purposes, including level 3 fair values. This team reports directly to the chief financial officer (CFO) and discusses valuation processes and results with the CFO at least once every quarter in line with the Group's quarterly reporting dates.

**5.6 Sensitivity analysis for Recurring Fair Value Measurements Categorized Within Level 3**

Sensitivity analysis of financial instruments is performed to measure favorable and unfavorable changes in the fair value of financial instruments which are affected by the unobservable parameters, using a statistical technique. When the fair value is affected by more than two input parameters, the most favorable or most unfavorable amounts are presented.

The results of the sensitivity analysis for the effect on pre-tax profit or loss from changes in inputs for each financial instrument that categorized as Level 3 and subject to sensitivity analysis, are as follows:

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(in thousands of Korean won)

|                                     | 2017               |         |                      |           |
|-------------------------------------|--------------------|---------|----------------------|-----------|
|                                     | Favourable changes |         | Unfavourable changes |           |
| Financial assets                    |                    |         |                      |           |
| Other financial assets <sup>1</sup> | ₩                  | 747,094 | ₩                    | (643,315) |
| Embedded derivatives <sup>2</sup>   |                    | 1,133   |                      | (14)      |

<sup>1</sup> Changes in their fair value are calculated by increasing or decreasing discount rate by 0.5 %, which is a significant unobservable input.

<sup>2</sup> Changes in their fair value are calculated by increasing or decreasing price volatility by 10 %, which is a significant unobservable input.

(in thousands of Korean won)

|                                     | 2016               |         |                      |           |
|-------------------------------------|--------------------|---------|----------------------|-----------|
|                                     | Favourable changes |         | Unfavourable changes |           |
| Financial assets                    |                    |         |                      |           |
| Other financial assets <sup>1</sup> | ₩                  | 730,503 | ₩                    | (631,813) |

<sup>1</sup> Changes in their fair value are calculated by increasing or decreasing stock price by 5 %, which is a significant unobservable input.

## 6. Operating Segment Information

### 6.1 Segment Information

According to Korean IFRS 1108 *Operating Segments*, the Group is categorized as a single reportable segment; therefore, a separate segment reporting is not required. Reporting reviewed regularly by the chief operating decision-maker is measured in a manner consistent with the consolidated financial statements.

### 6.2 Entity-wide disclosures

Revenue by geographical regions for the years ended December 31, 2017 and 2016, are as follows:

| (in thousands of Korean won) | 2017 |             | 2016 |             |
|------------------------------|------|-------------|------|-------------|
| Domestic sales               | ₩    | 581,414,840 | ₩    | 529,408,342 |
| Export                       |      | 144,439,028 |      | 131,399,245 |
|                              | ₩    | 725,853,868 | ₩    | 660,807,587 |



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Details of external customers, who contribute more than 10% of the Group's total revenue for the years ended December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | <b>2017</b>    |              | <b>2016</b>    |              |
|-------------------------------------|----------------|--------------|----------------|--------------|
|                                     | <b>Revenue</b> | <b>Ratio</b> | <b>Revenue</b> | <b>Ratio</b> |
| Customer 1                          | ₩ 100,921,577  | 13.9 %       | ₩ 107,444,123  | 16.3 %       |
| Customer 2                          | 78,251,992     | 10.8 %       | 74,570,499     | 11.3 %       |

**7. Financial Instruments by Category**

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

| <i>(in thousands of Korean won)</i>       | <b>2017</b>                  |  |  |                      |
|---|------------------------------|--|--|----------------------|
|   | <b>Loans and receivables</b> | <b>Financial assets at fair value through profit or loss</b> | <b>Available-for-sale financial assets</b> | <b>Total</b>         |
|   |                              | <b>Held for trading</b>                                      |  |                      |
| Cash and cash equivalents                 | ₩ 60,443,261                 | ₩ -  | ₩ -  | ₩ 60,443,261         |
| Trade and other receivables (current)     | 137,811,656                  | -  | -  | 137,811,656          |
| Trade and other receivables (non-current) | 1,638,187                    | -  | -  | 1,638,187            |
| Other financial assets (current)          | 15,432                       | -  | -  | 15,432               |
| Other financial assets (non-current)      | 11,608,513                   | -  | 1,361,114                                  | 12,969,627           |
| Derivative financial assets               | -                            | 407,115  | -  | 407,115              |
|   | <u>₩ 211,517,049</u>         | <u>₩ 407,115</u>   | <u>₩ 1,361,114</u>                         | <u>₩ 213,285,278</u> |

| <i>(in thousands of Korean won)</i>       | <b>2017</b>   |  |                          |                      |
|---|---|--|--------------------------|----------------------|
|   | <b>Financial liabilities at fair value through profit or loss</b> | <b>Financial liabilities carried at amortized cost</b> | <b>Other<sup>1</sup></b> | <b>Total</b>         |
|   | <b>Held for trading</b>   |  |                          |                      |
| Trade and other payables (current)        | ₩ -   | ₩ 75,491,555   | ₩ -                      | ₩ 75,491,555         |
| Trade and other payables (non-current)    | -   | 275,230  | -                        | 275,230              |
| Other financial liabilities (current)     | -   | 67,400,017   | 11,350,561               | 78,750,578           |
| Other financial liabilities (non-current) | -   | 29,939,571   | -                        | 29,939,571           |
| Derivative financial liabilities          | 983,822   | -  | -                        | 983,822              |
|   | <u>₩ 983,822</u>  | <u>₩ 173,106,373</u>                                   | <u>₩ 11,350,561</u>      | <u>₩ 185,440,756</u> |

<sup>1</sup> Financial liabilities that are not subject to the categorizations such as financial liabilities related to transfer transactions, which is not qualified for derecognition.

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|   |                          |   |           | 2016  |               |
|---|--------------------------|---|-----------|---|---------------|
|   | Loans and<br>receivables | Financial assets at<br>fair value through<br>profit or loss |           | Available- for-<br>sale financial<br>assets | Total         |
|   |                          | Held for trading  |           |   |               |
| Cash and cash equivalents                 | ₩ 50,139,721             | ₩ -   | ₩ -       | ₩ -   | ₩ 50,139,721  |
| Trade and other receivables (current)     | 148,905,872              | -   | -         | -   | 148,905,872   |
| Trade and other receivables (non-current) | 1,158,053                | -   | -         | -   | 1,158,053     |
| Other financial assets (current)          | 10,282                   | -   | -         | -   | 10,282        |
| Other financial assets (non-current)      | 4,907,355                | -   | 946,304   | -   | 5,853,659     |
| Derivative financial assets               | -                        | 1,637,992   | -         | -   | 1,637,992     |
|   | ₩ 205,121,283            | ₩ 1,637,992   | ₩ 946,304 | ₩ -   | ₩ 207,705,579 |

(in thousands of Korean won)

|   | 2016   |
|---|--|
|   | Financial liabilities carried at<br>amortized cost |
| Trade and other payables (current)        | ₩ 55,768,437                                       |
| Trade and other payables (non-current)    | 200,000  |
| Other financial liabilities (current)     | 73,368,154   |
| Other financial liabilities (non-current) | 59,806,575   |
|   | ₩ 189,143,166                                      |

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Net gains or losses on each category of financial instruments for the years ended December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i>                              |   | <b>2017</b> | <b>2016</b> |
|--|---|-------------|-------------|
| Available-for-sale financial assets                              |   |             |             |
| Gain (loss) on valuation (other comprehensive income)            | ₩ | 11,993      | ₩ 564,965   |
| Loss on disposal   |   | -           | (734,675)   |
| Impairment loss  |   | -           | (25,565)    |
| Dividend income  |   | 1,000       | 1,000       |
| Loans and receivables  |   |             |             |
| Interest income  |   | 827,405     | 951,902     |
| Gain on foreign currency translation                             |   | 31,830      | 177,899     |
| Loss on foreign currency translation                             |   | (835,871)   | (2,666)     |
| Gain on foreign currency transactions                            |   | 1,240,399   | 2,118,044   |
| Loss on foreign currency transactions                            |   | (2,869,391) | (1,784,161) |
| Loss on disposal   |   | (329,233)   | (58,275)    |
| Impairment on receivables  |   | (239,657)   | (196,178)   |
| Financial liabilities carried at amortized cost                  |   |             |             |
| Interest expense   |   | (3,262,323) | (3,855,370) |
| Gain on foreign currency translation                             |   | 1,907,144   | -           |
| Loss on foreign currency translation                             |   | -           | (2,332,468) |
| Gain on foreign currency transactions                            |   | 4,304,630   | 3,262,733   |
| Loss on foreign currency transactions                            |   | (1,409,398) | (2,630,925) |
| Financial asset held for trading                                 |   |             |             |
| Gain (loss) on derivative instruments valuation (profit or loss) |   | (193,675)   | 1,642,564   |
| Loss on derivative instruments transactions (profit or loss)     |   | -           | (534,443)   |
| Financial liabilities held for trading                           |   |             |             |
| Loss on derivative instruments valuation (profit or loss)        |   | (983,822)   | -           |
| Loss on derivative instruments transactions (profit or loss)     |   | (1,551,726) |             |

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**8. Credit Quality of Financial Assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates as at December 31, 2017 and 2016:

| (in thousands of Korean won)                  | 2017 |             | 2016 |             |
|---|------|-------------|------|-------------|
| Trade receivables                             |      |             |      |             |
| Counterparties with external credit rating    |      |             |      |             |
| AAA+  | ₩    | 7,940,118   | ₩    | 23,148,056  |
| AA+   |      | 15,570,454  |      | 19,654,990  |
| AA  |      | 496,872     |      | 515,559     |
| AA-   |      | 289,587     |      | 853         |
| A+  |      | 268,319     |      | 111,883     |
| A   |      | 6,945,736   |      | 5,740,554   |
| A-  |      | 214,275     |      | 2,134,859   |
| BBB+  |      | 703,276     |      | 1,155,421   |
| BBB   |      | 593,258     |      | 3,828,046   |
| BBB-  |      | 7,514,332   |      | 6,575,125   |
| BB+   |      | 4,978,143   |      | 2,341,938   |
| BB  |      | 16,072,014  |      | 14,379,889  |
| BB-   |      | 36,519,544  |      | 33,276,162  |
| B+  |      | 4,388,614   |      | 7,620,442   |
| B   |      | 228,586     |      | 3,709,158   |
| B-  |      | 1,570,539   |      | 3,502,561   |
| CCC+  |      | 9,339,027   |      | 13,035,303  |
| CCC-  |      | -           |      | 7,884       |
| CC+   |      | 131,439     |      | -           |
| C+  |      | 76,686      |      | 68,014      |
|   | ₩    | 113,840,819 | ₩    | 140,806,697 |
| Counterparties without external credit rating |      |             |      |             |
| Group 1 <sup>1</sup>                          | ₩    | 96,840      | ₩    | -           |
| Group 2 <sup>2</sup>                          |      | 2,498,648   |      | 2,651,304   |
| Group 3 <sup>3</sup>                          |      | 16,854,937  |      | 1,141,398   |
|   | ₩    | 19,450,425  | ₩    | 3,792,702   |
|   | ₩    | 133,291,244 | ₩    | 144,599,399 |

<sup>1</sup> New customers/related parties (less than 6 months).

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

<sup>3</sup> Existing customers/related parties secured with letter of credit and without default risk.

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*(in thousands of Korean won)*

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| <b>Cash and cash equivalents <sup>1</sup></b> |                     |                     |
| AAA   | ₩ 4,907,447         | ₩ 17,595,768        |
| AA+   | 35,516,921          | 22,555,555          |
| AA-   | 1,987,658           | 1,968,410           |
| A+  | 18,000,000          | 8,000,000           |
|   | <u>₩ 60,412,026</u> | <u>₩ 50,119,733</u> |

<sup>1</sup> The difference from carrying amount of cash and cash equivalents in the consolidated statements of financial position represents cash on hand.

*(in thousands of Korean won)*

|  | 2017           | 2016           |
|--|----------------|----------------|
| <b>Long-term financial instruments</b> |                |                |
| AAA                                    | ₩ 2,000        | ₩ 5,500        |
| AA+                                    | 2,500          | -              |
|  | <u>₩ 4,500</u> | <u>₩ 5,500</u> |

*(in thousands of Korean won)*

|                                    | 2017      | 2016      |
|------------------------------------|-----------|-----------|
| <b>Long-term loans<sup>1</sup></b> |           |           |
| Group 2                            | ₩ 240,000 | ₩ 349,000 |

<sup>1</sup> The Group provides loans to its employees as support for employees' housing and rent. In relation to the loan, the Group holds severance benefits and guarantees insurances of the related employees as collateral.

*(in thousands of Korean won)*

|                          | 2017        | 2016        |
|--------------------------|-------------|-------------|
| <b>Deposits provided</b> |             |             |
| Group 2                  | ₩ 6,364,013 | ₩ 4,552,855 |

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(in thousands of Korean won)

**2017**

**2016**

**Other receivables**

Counterparties with external credit rating

|      |   |           |   |         |
|------|---|-----------|---|---------|
| AAA+ | ₩ | 645,905   | ₩ | 1,318   |
| AA+  |   | -         |   | 566     |
| AA   |   | 13,900    |   | 7,833   |
| AA-  |   | -         |   | 316     |
| A-   |   | 636       |   | 1,308   |
| BBB  |   | 50,701    |   | 25,740  |
| BB+  |   | 40,423    |   | 44,606  |
| BB   |   | 7,153     |   | 305     |
| BB-  |   | 119,433   |   | 23,801  |
| B+   |   | 355,306   |   | 171,940 |
| B    |   | 448       |   | 126,578 |
| B-   |   | 8,884     |   | -       |
| CCC+ |   | 141,296   |   | 26,550  |
| CCC  |   | 165       |   |         |
|      | ₩ | 1,384,250 | ₩ | 430,861 |

Counterparties with no external credit rating

Group 2

|   |           |   |         |
|---|-----------|---|---------|
| ₩ | 49,510    | ₩ | -       |
| ₩ | 49,510    | ₩ | -       |
| ₩ | 1,433,760 | ₩ | 430,861 |

(in thousands of Korean won)

**2017**

**2016**

**Accrued income**

|     |   |        |   |       |
|-----|---|--------|---|-------|
| AAA | ₩ | -      | ₩ | 750   |
| AA+ |   | 13,468 |   | 5,080 |
| AA- |   | 2,211  |   | 841   |
| A+  |   | 3,526  |   | 679   |
|     | ₩ | 19,205 | ₩ | 7,350 |

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
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*(in thousands of Korean won)*

**2017**

**2016**

**Investment bonds**

|     |   |           |   |   |
|-----|---|-----------|---|---|
| BB- | ₩ | 5,000,000 | ₩ | - |
|-----|---|-----------|---|---|

**9. Transfer of Financial Assets**

Under factoring arrangement, the Group transferred trade receivables at a discount to the financial institutions for the year ended December 31, 2017. The Group may retain an obligation to compensate a financial institution for debtors' failure to make payment when they become due, an obligation known as a 'recourse obligation'. Recourse obligations related to the sales of receivables with recourse are accounted for as collateralized borrowings (Note 20).

*(in thousands of Korean won)*

**2017**

**2016**

|   |   |              |   |   |
|---|---|--------------|---|---|
| Carrying amount of assets                     | ₩ | 11,350,561   | ₩ | - |
| Carrying amount of the associated liabilities |   | (11,350,561) |   | - |

The Group transferred trade receivables to financial institutions for ₩ 74,426 million and USD 17,150,714.79 and derecognized the trade receivables from the financial statements as substantially all the risks and rewards are transferred. In the course of transfer, the Company recognized a loss on disposal for ₩ 329 million.

**10. Restricted Financial Instruments**

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

*(in thousands of Korean won)*

**2017**

**2016**

|  |   |       |   |       |
|--|---|-------|---|-------|
| Special deposits (Long-term financial instruments) | ₩ | 4,500 | ₩ | 5,500 |
|--|---|-------|---|-------|

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
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**December 31, 2017 and 2016**

**11. Trade and Other Receivables**

Details of trade and other receivables as at December 31, 2017 and 2016, consist of the following:

| (in thousands of Korean won)   | 2017                |                          |                     | 2016                |                          |                     |
|--------------------------------|---------------------|--------------------------|---------------------|---------------------|--------------------------|---------------------|
|                                | Receivables         | Provision for impairment | Carrying amount     | Receivables         | Provision for impairment | Carrying amount     |
| Current                        |                     |                          |                     |                     |                          |                     |
| Trade receivables <sup>1</sup> | ₩136,650,393        | ₩ (291,702)              | ₩136,358,691        | ₩148,872,935        | ₩ (405,275)              | ₩148,467,660        |
| Other receivables              | 1,462,426           | (28,666)                 | 1,433,760           | 459,527             | (28,666)                 | 430,861             |
| Accrued income                 | 19,205              | -                        | 19,205              | 7,350               | -                        | 7,350               |
|                                | <u>₩138,132,024</u> | <u>₩ (320,368)</u>       | <u>₩137,811,656</u> | <u>₩149,339,812</u> | <u>₩ (433,941)</u>       | <u>₩148,905,871</u> |
| Non-current                    |                     |                          |                     |                     |                          |                     |
| Trade receivables <sup>2</sup> | 1,903,000           | (264,813)                | 1,638,187           | 1,268,750           | (110,697)                | 1,158,053           |
|                                | <u>₩140,035,024</u> | <u>₩ (585,181)</u>       | <u>₩139,449,843</u> | <u>₩150,608,562</u> | <u>₩ (544,638)</u>       | <u>₩150,063,924</u> |

<sup>1</sup> The Group has transferred trade receivables amounting to ₩ 11,351 million to Kookmin Bank and another financial institution in exchange for cash for the year ended December 31, 2017. The Group may retain an obligation to compensate for debtors' failure to make payment when they become due; therefore, the transaction has been accounted for as a collateralized borrowing (Note 20).

<sup>2</sup> Provision of trade receivables (non-current) is the amount after reflecting present value.

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

| (in thousands of Korean won)           | 2017                 | 2016                 |
|--|----------------------|----------------------|
| Receivables not past due               | ₩ 133,291,244        | ₩ 144,599,399        |
| Past due but not impaired <sup>1</sup> |                      |                      |
| Less than 3 months                     | 4,870,365            | 4,228,816            |
| 3 to 6 months                          | -                    | 696,431              |
| 6 to 12 months                         | 53,949               | 162,145              |
| Over 12 months                         | 46,133               | 49,619               |
|  | <u>4,970,447</u>     | <u>5,137,011</u>     |
| Impaired <sup>2</sup>                  |                      |                      |
| Over 6 months                          | 291,702              | 405,275              |
|  | <u>₩ 138,553,393</u> | <u>₩ 150,141,685</u> |

<sup>1</sup> Trade receivables past due but not impaired relate to a number of independent customers with no recent history of default. Trade receivables past due which either collateral and/or guarantee is obtained is not deemed impaired.

<sup>2</sup> The amount of the provision was ₩ 292 million as at December 31, 2017 (2016: ₩ 405 million).



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

| <i>(in thousands of Korean won)</i>                | <b>2017</b> |           | <b>2016</b> |           |
|--|-------------|-----------|-------------|-----------|
| Beginning  | ₩           | 544,638   | ₩           | 974,258   |
| Provision for impaired receivables during the year |             | 239,657   |             | 196,178   |
| Trade receivables written off                      |             | -         |             | (279,059) |
| Other receivables written off                      |             | -         |             | (32,849)  |
| Unwinding of discount                              |             | (199,114) |             | (313,890) |
| Ending   | ₩           | 585,181   | ₩           | 544,638   |

The Group was provided collateral and payment guarantees of ₩ 41,730 million for credit enhancement of trade receivables by customers.

**12. Derivative Financial Instruments**

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

| <i>(in thousands of Korean won)</i> | <b>2017</b>  |                  | <b>2016</b>  |                  |
|-------------------------------------|--------------|------------------|--------------|------------------|
|                                     | <b>Asset</b> | <b>Liability</b> | <b>Asset</b> | <b>Liability</b> |
| Currency forward                    | ₩ -          | ₩ 983,822        | ₩ 1,637,992  | ₩ -              |
| Embedded derivatives <sup>1</sup>   | 407,115      | -                | -            | -                |

<sup>1</sup> Amount equivalent to conversion rights of redeemable convertible preference shares that the Group acquired during 2017.

**13. Other Financial Assets**

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

| <i>(in thousands of Korean won)</i> | <b>2017</b> |            | <b>2016</b> |           |
|-------------------------------------|-------------|------------|-------------|-----------|
| <b>Current</b>                      |             |            |             |           |
| Other quick assets                  | ₩           | 15,432     | ₩           | 10,282    |
| <b>Non-current</b>                  |             |            |             |           |
| Long-term financial assets          |             | 4,500      |             | 5,500     |
| Available-for-sale securities       |             | 1,361,114  |             | 946,304   |
| Loans                               |             | 240,000    |             | 349,000   |
| Deposits received                   |             | 6,364,013  |             | 4,552,855 |
| Investment bonds                    |             | 5,000,000  |             | -         |
| Sub-total                           |             | 12,969,627 |             | 5,853,659 |
|                                     | ₩           | 12,985,059 | ₩           | 5,863,941 |

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
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None of other financial assets are impaired or overdue, and the Group does not hold any collateral.

**14. Other Current Assets**

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

| <i>(in thousands of Korean won)</i> | <b>2017</b> |                | <b>2016</b> |                  |
|-------------------------------------|-------------|----------------|-------------|------------------|
| Advance payments                    | ₩           | 733,506        | ₩           | 942,171          |
| Prepaid expenses                    |             | 121,853        |             | 103,989          |
|                                     | ₩           | <u>855,359</u> | ₩           | <u>1,046,160</u> |

**15. Inventories**

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

| <i>(in thousands of Korean won)</i> | <b>2017</b>                    |                            |                      |
|-------------------------------------|--------------------------------|----------------------------|----------------------|
|                                     | <b>Amount before valuation</b> | <b>Valuation allowance</b> | <b>Net</b>           |
| Merchandise                         | ₩ 16,944,333                   | ₩ (754,254)                | ₩ 16,190,079         |
| Finished goods                      | 45,348,187                     | (2,887,142)                | 42,461,045           |
| Work-in-process                     | 17,809,274                     | (792,231)                  | 17,017,043           |
| Raw materials                       | 35,899,935                     | (1,100,583)                | 34,799,352           |
| Supplies                            | 16,088,656                     | -                          | 16,088,656           |
| Materials in transit                | 6,193,826                      | -                          | 6,193,826            |
|                                     | ₩ <u>138,284,211</u>           | ₩ <u>(5,534,210)</u>       | ₩ <u>132,750,001</u> |

| <i>(in thousands of Korean won)</i> | <b>2016</b>                    |                            |                      |
|-------------------------------------|--------------------------------|----------------------------|----------------------|
|                                     | <b>Amount before valuation</b> | <b>Valuation allowance</b> | <b>Net</b>           |
| Merchandise                         | ₩ 10,522,594                   | ₩ (620,585)                | ₩ 9,902,009          |
| Finished goods                      | 27,583,325                     | (1,267,353)                | 26,315,972           |
| Work-in-process                     | 19,217,237                     | (909,168)                  | 18,308,069           |
| Raw materials                       | 30,736,809                     | (1,236,125)                | 29,500,684           |
| Supplies                            | 21,212,434                     | -                          | 21,212,434           |
| Materials in transit                | 7,454,850                      | -                          | 7,454,850            |
|                                     | ₩ <u>116,727,249</u>           | ₩ <u>(4,033,231)</u>       | ₩ <u>112,694,018</u> |

The cost of inventories recognized as expense and included in 'cost of sales' amounts to ₩ 576,357 million in 2017 (2016: ₩ 496,081 million).

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Changes in allowance for loss on inventory valuation for the years ended December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | <b>2017</b> |                  | <b>2016</b> |                    |
|-------------------------------------|-------------|------------------|-------------|--------------------|
| Beginning                           | ₩           | 4,033,231        | ₩           | 6,367,307          |
| Loss on valuation (Reversal)        |             | <u>1,500,979</u> |             | <u>(2,334,076)</u> |
| Ending                              | ₩           | <u>5,534,210</u> | ₩           | <u>4,033,231</u>   |

**16. Property, Plant and Equipment**

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

| <i>(in thousands of Korean won)</i>            | <b>2017</b>         |                                 |                     |                    |                             |                                 |                      |
|--|---------------------|---------------------------------|---------------------|--------------------|-----------------------------|---------------------------------|----------------------|
|  | <b>Land</b>         | <b>Buildings and Structures</b> | <b>Machinery</b>    | <b>Others</b>      | <b>Machinery in transit</b> | <b>Construction in-progress</b> | <b>Total</b>         |
| Acquisition cost                               | ₩ 41,098,680        | ₩ 61,642,411                    | ₩ 305,407,615       | ₩ 11,178,741       | ₩ 4,218,232                 | ₩ 1,012,953                     | ₩ 424,558,632        |
| Accumulated depreciation and impairment losses | -                   | (19,694,343)                    | (215,541,312)       | (8,299,825)        | -                           | -                               | (243,535,480)        |
|  | <u>₩ 41,098,680</u> | <u>₩ 41,948,068</u>             | <u>₩ 89,866,303</u> | <u>₩ 2,878,916</u> | <u>₩ 4,218,232</u>          | <u>₩ 1,012,953</u>              | <u>₩ 181,023,152</u> |

| <i>(in thousands of Korean won)</i>            | <b>2016</b>         |                                 |                      |                    |                             |                                 |                      |
|--|---------------------|---------------------------------|----------------------|--------------------|-----------------------------|---------------------------------|----------------------|
|  | <b>Land</b>         | <b>Buildings and Structures</b> | <b>Machinery</b>     | <b>Others</b>      | <b>Machinery in transit</b> | <b>Construction in-progress</b> | <b>Total</b>         |
| Acquisition cost                               | ₩ 40,963,634        | ₩ 61,134,761                    | ₩ 311,089,767        | ₩ 11,555,185       | ₩ 20,560                    | ₩ 524,662                       | ₩ 425,288,569        |
| Accumulated depreciation and impairment losses | -                   | (18,213,811)                    | (206,393,857)        | (8,242,055)        | -                           | -                               | (232,849,723)        |
|  | <u>₩ 40,963,634</u> | <u>₩ 42,920,950</u>             | <u>₩ 104,695,910</u> | <u>₩ 3,313,130</u> | <u>₩ 20,560</u>             | <u>₩ 524,662</u>                | <u>₩ 192,438,846</u> |

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

| (in thousands of<br>Korean won) | 2017         |                             |               |             |                         |                              |               |
|---------------------------------|--------------|-----------------------------|---------------|-------------|-------------------------|------------------------------|---------------|
|                                 | Land         | Buildings and<br>Structures | Machinery     | Others      | Machinery in<br>transit | Construction in-<br>progress | Total         |
| Beginning                       | ₩ 40,963,634 | ₩42,920,950                 | ₩ 104,695,910 | ₩ 3,313,130 | ₩ 20,560                | ₩ 524,662                    | ₩ 192,438,846 |
| Acquisition                     | -            | 1,676                       | 1,023,407     | 892,102     | 4,993,786               | 4,144,174                    | 11,055,145    |
| Reclassification <sup>1</sup>   | 135,046      | 525,705                     | 4,167,713     | -           | (796,114)               | (3,655,883)                  | 376,467       |
| Disposal                        | -            | (1)                         | (1,844,566)   | (52,128)    | -                       | -                            | (1,896,695)   |
| Depreciation                    | -            | (1,500,262)                 | (18,176,161)  | (1,274,188) | -                       | -                            | (20,950,611)  |
| Ending                          | ₩ 41,098,680 | ₩41,948,068                 | ₩ 89,866,303  | ₩ 2,878,916 | ₩4,218,232              | ₩ 1,012,953                  | ₩ 181,023,152 |

<sup>1</sup> Reclassification from investment property and reclassification to inventories.

| (in thousands of<br>Korean won) | 2016         |                             |               |             |                         |                              |               |
|---------------------------------|--------------|-----------------------------|---------------|-------------|-------------------------|------------------------------|---------------|
|                                 | Land         | Buildings and<br>Structures | Machinery     | Others      | Machinery in<br>transit | Construction in-<br>progress | Total         |
| Beginning                       | ₩ 40,963,634 | ₩44,202,530                 | ₩ 121,629,227 | ₩ 4,404,302 | ₩1,804,359              | ₩ 949,185                    | ₩ 213,953,237 |
| Acquisition                     | -            | 629                         | 339,210       | 344,906     | 2,709,717               | 2,979,790                    | 6,374,252     |
| Reclassification <sup>1</sup>   | -            | 260,816                     | 7,299,083     | 38,000      | (4,493,516)             | (3,404,313)                  | (299,930)     |
| Disposal                        | -            | (3)                         | (2,519,665)   | (200,393)   | -                       | -                            | (2,720,061)   |
| Depreciation                    | -            | (1,489,046)                 | (18,659,485)  | (1,273,685) | -                       | -                            | (21,422,216)  |
| Impairment loss                 | -            | (53,976)                    | (3,392,460)   | -           | -                       | -                            | (3,446,436)   |
| Ending                          | ₩ 40,963,634 | ₩42,920,950                 | ₩ 104,695,910 | ₩ 3,313,130 | ₩ 20,560                | ₩ 524,662                    | ₩ 192,438,846 |

<sup>1</sup> Reclassification to inventories.

Depreciation expense of ₩ 20,086 million (2016: ₩ 20,428 million) and ₩ 865 million (2016: ₩ 994 million) has been included in 'cost of sales' and 'selling and administrative expenses', respectively.

## 17. Investment Property

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

| (in thousands of Korean won)                      | 2017                |                    |                     |
|---|---------------------|--------------------|---------------------|
|   | Land                | Building           | Total               |
| Acquisition cost                                  | ₩ 22,088,083        | ₩ 7,593,391        | ₩ 29,681,474        |
| Accumulated depreciation and<br>impairment losses | <u>-</u>            | <u>(3,155,324)</u> | <u>(3,155,324)</u>  |
|   | <u>₩ 22,088,083</u> | <u>₩ 4,438,067</u> | <u>₩ 26,526,150</u> |

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(in thousands of Korean won)

|  | <b>2016</b>         |                    |                     |
|--|---------------------|--------------------|---------------------|
|  | <b>Land</b>         | <b>Building</b>    | <b>Total</b>        |
| Acquisition cost                               | ₩ 22,223,129        | ₩ 7,867,677        | ₩ 30,090,806        |
| Accumulated depreciation and impairment losses | -                   | (3,020,258)        | (3,020,258)         |
|  | <u>₩ 22,223,129</u> | <u>₩ 4,847,419</u> | <u>₩ 27,070,548</u> |

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

(in thousands of Korean won)

|                  | <b>2017</b>         |                    |                     |
|------------------|---------------------|--------------------|---------------------|
|                  | <b>Land</b>         | <b>Building</b>    | <b>Total</b>        |
| Beginning        | ₩ 22,223,129        | ₩ 4,847,419        | ₩ 27,070,548        |
| Reclassification | (135,046)           | (246,462)          | (381,508)           |
| Depreciation     | -                   | (162,890)          | (162,890)           |
| Ending           | <u>₩ 22,088,083</u> | <u>₩ 4,438,067</u> | <u>₩ 26,526,150</u> |

(in thousands of Korean won)

|                  | <b>2016</b>         |                    |                     |
|------------------|---------------------|--------------------|---------------------|
|                  | <b>Land</b>         | <b>Building</b>    | <b>Total</b>        |
| Beginning        | ₩ 22,223,129        | ₩ 5,010,308        | ₩ 27,233,437        |
| Reclassification | -                   | -                  | -                   |
| Depreciation     | -                   | (162,889)          | (162,889)           |
| Ending           | <u>₩ 22,223,129</u> | <u>₩ 4,847,419</u> | <u>₩ 27,070,548</u> |

Rental income from investment property for the year ended December 31, 2017, is ₩ 1,388 million (2016: ₩ 1,219 million), and operating expenses (including repairs and maintenance) directly related to the investment property is ₩ 291 million (2016: ₩ 220 million). The Group holds no investment property that does not generate rental income.

As at December 31, 2017, the fair value of investment property amounts to ₩ 58,696 million (2016: ₩ 60,975 million).

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**18. Intangible Assets**

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

*(in thousands of Korean won)*

|  | <b>2017</b>        |                     |                  |                     |
|--|--------------------|---------------------|------------------|---------------------|
|  | <b>Goodwill</b>    | <b>Memberships</b>  | <b>Others</b>    | <b>Total</b>        |
| Acquisition cost                               | ₩ 3,957,673        | ₩ 13,965,881        | ₩ 4,235,628      | ₩ 22,159,182        |
| Accumulated amortization and impairment losses | -                  | -                   | (3,699,464)      | (3,699,464)         |
|  | <u>₩ 3,957,673</u> | <u>₩ 13,965,881</u> | <u>₩ 536,164</u> | <u>₩ 18,459,718</u> |

*(in thousands of Korean won)*

|  | <b>2016</b>        |                     |                  |                     |
|--|--------------------|---------------------|------------------|---------------------|
|  | <b>Goodwill</b>    | <b>Memberships</b>  | <b>Others</b>    | <b>Total</b>        |
| Acquisition cost                               | ₩ 3,957,673        | ₩ 13,506,066        | ₩ 3,970,807      | ₩ 21,434,546        |
| Accumulated amortization and impairment losses | -                  | -                   | (3,516,866)      | (3,516,866)         |
|  | <u>₩ 3,957,673</u> | <u>₩ 13,506,066</u> | <u>₩ 453,941</u> | <u>₩ 17,917,680</u> |

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

*(in thousands of Korean won)*

|              | <b>2017</b>        |                     |                  |                     |
|--------------|--------------------|---------------------|------------------|---------------------|
|              | <b>Goodwill</b>    | <b>Memberships</b>  | <b>Others</b>    | <b>Total</b>        |
| Beginning    | ₩ 3,957,673        | ₩ 13,506,066        | ₩ 453,941        | ₩ 17,917,680        |
| Acquisition  | -                  | 1,059,815           | 264,821          | 1,324,636           |
| Disposal     | -                  | (600,000)           | -                | (600,000)           |
| Amortization | -                  | -                   | (182,598)        | (182,598)           |
| Ending       | <u>₩ 3,957,673</u> | <u>₩ 13,965,881</u> | <u>₩ 536,164</u> | <u>₩ 18,459,718</u> |

*(in thousands of Korean won)*

|              | <b>2016</b>        |                     |                  |                     |
|--------------|--------------------|---------------------|------------------|---------------------|
|              | <b>Goodwill</b>    | <b>Memberships</b>  | <b>Others</b>    | <b>Total</b>        |
| Beginning    | ₩ 3,957,673        | ₩ 13,180,866        | ₩ 1,174,389      | ₩ 18,312,928        |
| Acquisition  | -                  | 325,200             | -                | 325,200             |
| Amortization | -                  | -                   | (720,448)        | (720,448)           |
| Ending       | <u>₩ 3,957,673</u> | <u>₩ 13,506,066</u> | <u>₩ 453,941</u> | <u>₩ 17,917,680</u> |

Amortization expense is included in 'selling and administrative expense' in the consolidated statement of comprehensive income.

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**19. Trade Payables and Other Liabilities**

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

*(in thousands of Korean won)*

|                    | <b>2017</b> |                   | <b>2016</b> |                   |
|--------------------|-------------|-------------------|-------------|-------------------|
| <b>Current</b>     |             |                   |             |                   |
| Trade payables     | ₩           | 54,804,194        | ₩           | 39,742,183        |
| Other payables     |             | 4,532,591         |             | 2,948,085         |
| Accrued expenses   |             | 15,725,370        |             | 12,714,768        |
| Deposits received  |             | 429,400           |             | 363,400           |
|                    | ₩           | <u>75,491,555</u> | ₩           | <u>55,768,436</u> |
| <b>Non-Current</b> |             |                   |             |                   |
| Other payables     | ₩           | 50,000            | ₩           | 200,000           |
| Accrued expenses   |             | 225,230           |             | -                 |
|                    |             | <u>275,230</u>    |             | <u>200,000</u>    |
|                    | ₩           | <u>75,766,785</u> | ₩           | <u>55,968,436</u> |

**20. Other Financial Liabilities**

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

*(in thousands of Korean won)*

|                          | <b>2017</b> |                    | <b>2016</b> |                    |
|--------------------------|-------------|--------------------|-------------|--------------------|
| <b>Current</b>           |             |                    |             |                    |
| Short-term borrowings    | ₩           | 48,776,847         | ₩           | 43,383,088         |
| Current portion of bonds |             | 29,973,731         |             | 29,985,066         |
|                          | ₩           | <u>78,750,578</u>  | ₩           | <u>73,368,154</u>  |
| <b>Non-current</b>       |             |                    |             |                    |
| Bonds                    |             | 29,939,571         |             | 59,806,575         |
|                          | ₩           | <u>108,690,149</u> | ₩           | <u>133,174,729</u> |

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Details of borrowings from financial institution as at December 31, 2017 and 2016, are as follows:

| (in thousands of<br>Korean won) | Creditor                    | Purpose  | Maturity                    | Interest rate (%) | Amount              |                    |
|---------------------------------|-----------------------------|--|-----------------------------|-------------------|---------------------|--------------------|
|                                 |                             |  |                             | Dec. 31, 2017     | 2017                | 2016               |
| Short-term<br>borrowings        | Kookmin Bank<br>and 1 other | Transfer of<br>trade<br>receivables <sup>1</sup> | 2018.1.1<br>~<br>2018.11.26 | 0.92<br>~ 2.82    | ₩11,350,561         | ₩ -                |
|                                 | Hana Bank and<br>5 others   | Usance   | 2018.1.16<br>~ 2018.5.29    | 1.64<br>~ 2.11    | 27,426,286          | 30,383,088         |
|                                 | KDB                         | General  | 2018.5.12                   | 2.58              | 10,000,000          | 8,000,000          |
|                                 | Woori Bank                  | General  | -                           | -                 | -                   | 5,000,000          |
|                                 |                             |  |                             |                   | <u>₩ 48,776,847</u> | <u>₩43,383,088</u> |

<sup>1</sup> Trade receivables are pledged as collateral (Note 11).

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

| (in thousands of Korean won) |                          | Issuance  | Maturity                 | Annual interest rate (%) | Amount       |              |
|------------------------------|--------------------------|-----------|--------------------------|--------------------------|--------------|--------------|
|                              |                          |           |                          | Dec. 31, 2017            | 2017         | 2016         |
| 199 <sup>th</sup>            | Fixed rate in Korean won | -         | -                        | -                        | ₩ -          | ₩ 30,000,000 |
| 200 <sup>th</sup>            | Fixed rate in Korean won | 2015.6.23 | 2018.6.23                | 2.52                     | 30,000,000   | 30,000,000   |
| 201 <sup>th</sup>            | Fixed rate in Korean won | 2016.2.26 | 2019.2.26                | 2.61                     | 30,000,000   | 30,000,000   |
|                              |                          |           |                          |                          | ₩ 60,000,000 | ₩ 90,000,000 |
|                              |                          |           | Current portion of bonds |                          | 30,000,000   | 30,000,000   |
|                              |                          |           | Discount on bonds        |                          | (26,269)     | (14,934)     |
|                              |                          |           |                          |                          | ₩ 29,973,731 | ₩ 29,985,066 |
|                              |                          |           | Non-current bonds        |                          | 30,000,000   | 60,000,000   |
|                              |                          |           | Discount on bonds        |                          | (60,429)     | (193,425)    |
|                              |                          |           |                          |                          | ₩ 29,939,571 | ₩ 59,806,575 |



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**21. Other Current Liabilities**

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

| <i>(in thousands of Korean won)</i> | <b>2017</b> |                  | <b>2016</b> |                  |
|-------------------------------------|-------------|------------------|-------------|------------------|
| Advance receipt from customers      | ₩           | 285,342          | ₩           | 213,010          |
| Withholdings                        |             | 999,310          |             | 1,105,535        |
| Value added tax withheld            |             | 521,797          |             | 1,794,418        |
|                                     | ₩           | <u>1,806,449</u> | ₩           | <u>3,112,963</u> |

**22. Net Defined Benefit Liabilities**

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

| <i>(in thousands of Korean won)</i>                   | <b>2017</b> |                     | <b>2016</b> |                     |
|---|-------------|---------------------|-------------|---------------------|
| Present value of funded defined benefit obligations   | ₩           | 35,300,590          | ₩           | 32,061,294          |
| Present value of unfunded defined benefit obligations |             | <u>120,124</u>      |             | <u>15,551</u>       |
|   |             | 35,420,714          |             | 32,076,845          |
| Fair value of plan assets <sup>1</sup>                |             | <u>(19,829,489)</u> |             | <u>(18,030,013)</u> |
|   | ₩           | <u>15,591,225</u>   | ₩           | <u>14,046,832</u>   |

<sup>1</sup> Contribution to the national pension fund of ₩ 5 million (2016: ₩ 6 million) is included in the fair value of plan assets.

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

| <i>(in thousands of Korean won)</i>                          | <b>2017</b> |                   | <b>2016</b> |                   |
|--|-------------|-------------------|-------------|-------------------|
| Beginning  | ₩           | 32,076,845        | ₩           | 30,417,392        |
| Current service cost   |             | 3,737,616         |             | 4,270,837         |
| Interest expense   |             | 873,181           |             | 813,151           |
| Payments   |             | (1,681,184)       |             | (2,398,036)       |
| Remeasurements:  |             |                   |             |                   |
| Actuarial gain arising from changes in financial assumptions |             | (957,688)         |             | (134,683)         |
| Actuarial loss(gain) arising from experience adjustments     |             | 1,364,046         |             | (582,270)         |
| Transfer   |             | <u>7,898</u>      |             | <u>(309,546)</u>  |
| Ending   | ₩           | <u>35,420,714</u> | ₩           | <u>32,076,845</u> |

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

| <i>(in thousands of Korean won)</i> | <b>2017</b> |                   | <b>2016</b> |                   |
|-------------------------------------|-------------|-------------------|-------------|-------------------|
| Beginning                           | ₩           | 18,030,013        | ₩           | 14,602,023        |
| Interest income                     |             | 496,590           |             | 394,842           |
| Remeasurements:                     |             |                   |             |                   |
| Return on plan assets               |             | (124,625)         |             | (61,570)          |
| Contributions of employers          |             | 3,528,522         |             | 3,306,080         |
| Benefit payments                    |             | (2,101,011)       |             | (211,362)         |
| Ending                              | ₩           | <u>19,829,489</u> | ₩           | <u>18,030,013</u> |

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

| <i>(in thousands of Korean won)</i>   | <b>2017</b>         |                       | <b>2016</b>         |                       |
|---------------------------------------|---------------------|-----------------------|---------------------|-----------------------|
|                                       | <b>Amount</b>       | <b>Composition(%)</b> | <b>Amount</b>       | <b>Composition(%)</b> |
| Time deposits                         | ₩ 19,824,928        | 100                   | ₩ 18,023,756        | 100                   |
| Cash and cash equivalents             | -                   | -                     | 542                 | -                     |
| Contribution to national pension plan | 4,561               | -                     | 5,715               | -                     |
|                                       | <u>₩ 19,829,489</u> | <u>100</u>            | <u>₩ 18,030,013</u> | <u>100</u>            |

The principal actuarial assumptions for the years ended December 31, 2017 and 2016, are as follows:

|                                 | <b>2017</b> | <b>2016</b> |
|---------------------------------|-------------|-------------|
| Discount rate <sup>1</sup>      | 3.12 %      | 2.78 %      |
| Rate of future salary increases | 5.00 %      | 5.00 %      |
| Rate of retirement              | 1.41 %      | 1.45 %      |

<sup>1</sup> Discount rate is determined by reference to market yields at the end of every reporting period, on high quality corporate bond (unsecured publicly-subscribed corporate bond with ratings of AA+). Yields at maturity for the bonds which matches the average estimated timing of the pension payments was applied.

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The sensitivity of the defined benefit obligations as at December 31, 2017, to changes in the principal actuarial assumptions is:

|                                 | <b>Changes in principal assumptions</b> | <b>Impact on amount of liability</b> |
|---------------------------------|---|--------------------------------------|
| Discount rate                   | 1% increase/decrease                    | 7.30% decrease/ 8.40% increase       |
| Rate of future salary increases | 1% increase/decrease                    | 8.30% increase/ 7.30% decrease       |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to changes in principal actuarial assumptions is calculated using the projected unit credit method, the same method applied when calculating the defined benefit obligations presented in the consolidated statement of financial position.

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

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

| <i>(in thousands of Korean won)</i> | <b>Less than 1 year</b> | <b>Between 1 and 2 years</b> | <b>Between 2 and 5 years</b> | <b>Over 5 years</b> | <b>Total</b> |
|-------------------------------------|-------------------------|------------------------------|------------------------------|---------------------|--------------|
| Benefit payments                    | ₩ 2,883,467             | ₩ 3,066,994                  | ₩ 8,612,122                  | ₩ 33,126,975        | ₩ 47,689,558 |

The weighted average duration of the defined benefit obligations is 8.85 years.

### **23. Tax Expense and Deferred Tax**

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

| <i>(in thousands of Korean won)</i>                 | <b>2017</b>        | <b>2016</b>        |
|---|--------------------|--------------------|
| Current tax:  |                    |                    |
| Current tax on profits for the year                 | ₩ 9,567,167        | ₩ 8,618,249        |
| Adjustments in respect of prior years               | 1,939,249          | 160,671            |
|   | <u>11,506,416</u>  | <u>8,778,920</u>   |
| Deferred tax:                                       |                    |                    |
| Income taxes due to changes in temporary difference | (2,677,915)        | (1,541,079)        |
| Income tax expense                                  | <u>₩ 8,828,501</u> | <u>₩ 7,237,841</u> |

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

| <i>(in thousands of Korean won)</i>   | <b>2017</b> |            | <b>2016</b> |            |
|---|-------------|------------|-------------|------------|
| Profit before tax   | ₩           | 28,593,086 | ₩           | 29,113,897 |
| Tax at domestic tax rates applicable to profits in the respective countries |             | 6,605,003  |             | 6,725,310  |
| Tax effects of:   |             |            |             |            |
| Expenses not deductible for tax purposes                                    |             | 437,646    |             | 398,754    |
| Tax credit  |             | (3,043)    |             | (40,863)   |
| Adjustment in respect of prior years  |             | 1,939,249  |             | 160,671    |
| Changes in deferred tax due to adjustments of prior years                   |             | (412,312)  |             | -          |
| Additional tax  |             | 301,322    |             | -          |
| Others  |             | (39,364)   |             | (6,031)    |
| Income tax expense  | ₩           | 8,828,501  | ₩           | 7,237,841  |
| Effective tax rate  |             | 30.9%      |             | 24.9%      |

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

| <i>(in thousands of Korean won)</i>                | <b>2017</b>       |           |                   |         |                  |           |
|--|-------------------|-----------|-------------------|---------|------------------|-----------|
|  | <b>Before tax</b> |           | <b>Tax effect</b> |         | <b>After tax</b> |           |
| Loss on valuation of available-for-sale securities | ₩                 | 15,595    | ₩                 | (3,602) | ₩                | 11,993    |
| Changes in equity due to investment in associates  |                   | (349,102) |                   | 80,643  |                  | (268,459) |
| Remeasurements of net defined benefit liability    |                   | (530,983) |                   | 122,657 |                  | (408,326) |
|  | ₩                 | (515,388) | ₩                 | 119,055 | ₩                | (396,333) |

| <i>(in thousands of Korean won)</i>                | <b>2016</b>       |           |                   |           |                  |           |
|--|-------------------|-----------|-------------------|-----------|------------------|-----------|
|  | <b>Before tax</b> |           | <b>Tax effect</b> |           | <b>After tax</b> |           |
| Loss on valuation of available-for-sale securities | ₩                 | 734,675   | ₩                 | (169,710) | ₩                | 564,965   |
| Changes in equity due to investment in associates  |                   | (349,102) |                   | 80,643    |                  | (268,459) |
| Remeasurements of net defined benefit liability    |                   | 655,382   |                   | (151,393) |                  | 503,989   |
|  | ₩                 | 1,040,955 | ₩                 | (240,460) | ₩                | 800,494   |

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

| <i>(in thousands of Korean won)</i>       | <b>2017</b>         | <b>2016</b>        |
|---|---------------------|--------------------|
| Deferred tax assets                       |                     |                    |
| To be recovered after more than 12 months | ₩ 13,223,480        | ₩ 12,065,253       |
| To be recovered within 12 months          | <u>3,030,992</u>    | <u>1,348,339</u>   |
|   | <u>16,254,472</u>   | <u>13,413,592</u>  |
| Deferred tax liabilities                  |                     |                    |
| To be recovered after more than 12 months | (4,583,161)         | (4,163,613)        |
| To be recovered within 12 months          | <u>(4,436)</u>      | <u>(380,074)</u>   |
|   | <u>(4,587,597)</u>  | <u>(4,543,687)</u> |
| Deferred tax assets (liabilities), net    | <u>₩ 11,666,875</u> | <u>₩ 8,869,905</u> |

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Changes in deferred tax assets and liabilities for the years ended December 31, 2017 and 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

(in thousands of Korean won)

|  | 2017               |                             |                            |                     |
|--|--------------------|-----------------------------|----------------------------|---------------------|
|  | Beginning          | Statement of profit or loss | Other comprehensive income | Ending              |
| <b>Deferred tax liabilities</b>                  |                    |                             |                            |                     |
| Plan assets                                      | ₩ (4,163,613)      | ₩ (444,734)                 | ₩ 28,788                   | ₩ (4,579,559)       |
| Valuation of derivative financial instruments    | (378,376)          | 378,376                     | -                          | -                   |
| Interest income                                  | (1,698)            | (2,738)                     | -                          | (4,436)             |
| Valuation of available-for-sale financial assets | -                  | -                           | (3,602)                    | (3,602)             |
|  | <u>(4,543,687)</u> | <u>(69,096)</u>             | <u>25,186</u>              | <u>(4,587,597)</u>  |
| <b>Deferred tax assets</b>                       |                    |                             |                            |                     |
| Defined benefit obligation                       | 7,408,431          | 678,831                     | 93,869                     | 8,181,131           |
| Depreciation                                     | 1,585,807          | (59,016)                    | -                          | 1,526,791           |
| Impairment loss                                  | 718,321            | (429,829)                   | -                          | 288,492             |
| Valuation on inventories                         | 931,677            | 346,726                     | -                          | 1,278,403           |
| Accrued expenses                                 | 416,663            | 1,063,925                   | -                          | 1,480,588           |
| Long-term deposits                               | 147,840            | -                           | -                          | 147,840             |
| Other provision                                  | 2,057,695          | 498,412                     | -                          | 2,556,107           |
| Valuation of derivatives instruments             | -                  | 272,002                     | -                          | 272,002             |
| Other  | 147,158            | 375,960                     | -                          | 523,118             |
|  | <u>13,413,592</u>  | <u>2,747,011</u>            | <u>93,869</u>              | <u>16,254,472</u>   |
|  | <u>₩ 8,869,905</u> | <u>₩ 2,677,915</u>          | <u>₩ 119,055</u>           | <u>₩ 11,666,875</u> |

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|  | 2016               |                             |                            |                    |
|--|--------------------|-----------------------------|----------------------------|--------------------|
|  | Beginning          | Statement of profit or loss | Other comprehensive income | Ending             |
| <b>Deferred tax liabilities</b>                  |                    |                             |                            |                    |
| Plan assets                                      | ₩ (3,371,283)      | ₩ (806,553)                 | ₩ 14,223                   | ₩ (4,163,613)      |
| Investment in associates                         | (262,192)          | 181,549                     | 80,643                     | -                  |
| Valuation of derivative financial instruments    | -                  | (378,376)                   | -                          | (378,376)          |
| Interest income                                  | (1,449)            | (249)                       | -                          | (1,698)            |
|  | <u>(3,634,924)</u> | <u>(1,003,629)</u>          | <u>94,866</u>              | <u>(4,543,687)</u> |
| <b>Deferred tax assets</b>                       |                    |                             |                            |                    |
| Defined benefit obligation                       | 6,650,677          | 923,370                     | (165,616)                  | 7,408,431          |
| Depreciation                                     | 1,652,827          | (67,020)                    | -                          | 1,585,807          |
| Impairment loss                                  | 293,371            | 424,950                     | -                          | 718,321            |
| Valuation on inventories                         | 1,470,848          | (539,171)                   | -                          | 931,677            |
| Valuation on available-for-sale financial assets | 169,710            | -                           | (169,710)                  | -                  |
| Accrued expenses                                 | 380,776            | 35,887                      | -                          | 416,663            |
| Long-term deposits                               | 147,840            | -                           | -                          | 147,840            |
| Tax loss carryforwards                           | 295,001            | (295,001)                   | -                          | -                  |
| Tax credit carryforwards                         | 28,761             | (28,761)                    | -                          | -                  |
| Other provision                                  | -                  | 2,057,695                   | -                          | 2,057,695          |
| Other  | 114,399            | 32,759                      | -                          | 147,158            |
|  | <u>11,204,210</u>  | <u>2,544,708</u>            | <u>(335,326)</u>           | <u>13,413,592</u>  |
|  | <u>₩ 7,569,286</u> | <u>₩ 1,541,079</u>          | <u>₩ (240,460)</u>         | <u>₩ 8,869,905</u> |

Deferred income tax assets are recognized for tax loss carryforwards and tax credit carryforwards when the realization of the related tax benefit through future taxable income is probable. There are no deferred income tax assets that the Group has not recognized.

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## Notes to the Consolidated Financial Statements

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#### 24. Commitments and Contingencies

Details of commitments with financial institutions as at December 31, 2017, are as follows:

| <i>(in thousands of Korean won and in USD)</i> |                                     | Currency | Limit       | Currency | Used       |
|--|-------------------------------------|----------|-------------|----------|------------|
| Notes receivable discounting                   | Hana Bank                           | KRW      | 38,000,000  | KRW      | 25,127,279 |
| Trade receivable factoring                     | Kookmin Bank and 2 others           | KRW      | 20,000,000  | KRW      | 2,169,280  |
| Purchase financing                             | Standard Chartered First Bank Korea | KRW      | 10,000,000  | KRW      | -          |
| General financing                              | NH Bank and 6 others                | KRW      | 95,000,000  | KRW      | 10,000,000 |
| Import financing                               | Korea EXIM Bank and the other       | USD      | 60,000,000  | USD      | -          |
| Purchasing card                                | Hyundai Card Co., Ltd.,             | USD      | 3,000,000   | USD      | 3,000,000  |
| Opening of L/C and others <sup>1</sup>         | Woori Bank and 8 others             | USD      | 179,999,627 | USD      | 75,675,319 |

<sup>1</sup> The Group is provided with payment guarantees for the opening of letters of credit from financial institutions.

Details of significant litigations as at December 31, 2017, are as follows:

| <i>(in thousands of Korean won)</i> |               | Counterparty   | Contents    | Amount                   | Outcome |
|-------------------------------------|---------------|----------------|-------------|--------------------------|---------|
| As a defendant                      |               |                |             |                          |         |
| Busan High Court (Changwon)         | 339 employees | Ordinary wages | ₩ 6,088,723 | Second trial in progress |         |
| Chang-won local court               | 309 employees | Ordinary wages | 309,000     | First trial in progress  |         |

The Group recognizes provision of ₩ 11,065 million (2016: ₩ 8,908 million) in relation to these lawsuits. The final payables may differ from the provision based on the outcome of the lawsuit (Note 25).

The Group is provided with collateral and payment guarantees of ₩ 41,730 million for credit enhancement of trade receivables from customers.

The Group is provided with payment guarantees of ₩ 1,463 million by Seoul Guarantee Insurance Corp in relation to approval and warranties.



**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
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**25. Other Provision**

*(in thousands of Korean won)*

|                       | <b>Provision for general wages</b> |            |             |           |
|-----------------------|------------------------------------|------------|-------------|-----------|
|                       | <b>2017</b>                        |            | <b>2016</b> |           |
| Beginning             | ₩                                  | 8,907,772  | ₩           | -         |
| Additional provisions |                                    | 2,157,628  |             | 8,907,772 |
| Ending                | ₩                                  | 11,065,400 | ₩           | 8,907,772 |

At the end of the reporting period, lawsuits have been filed by employees against the Group asserting that the Group has to pay the employees in relation to general wages issues(₩ 6,398 million). The Group recognizes provision of ₩ 11,065 million. The final payables may differ from the provision based on the outcome of the lawsuit.

**26. Share Capital**

Details of share capital as at December 31, 2017, are as follows:

|                     | <b>Ordinary shares</b> | <b>Preferred shares</b> |
|---------------------|------------------------|-------------------------|
| Shares to be issued | 120,000,000 shares     | 40,000,000 shares       |
| Par value           | ₩ 5,000                | ₩ 5,000                 |
| Outstanding shares  | 15,078,811 shares      | 109,852 shares          |
| Share capital       | ₩ 75,394,055 thousands | ₩ 549,260 thousands     |

There are no changes in share capital for the year ended December 31, 2017.

The 109,852 shares of preferred share have no voting rights and are entitled to non-cumulative and non-participating preferred dividends at a rate of one percent over those for common shares. Voting rights on preferred shares will be allowed when dividend is not declared on preferred shareholders. In accordance with the Company's Articles of Incorporation, the Company is also authorized to grant stock options to directors and employees up to 15% of the total outstanding shares of the Company, upon obtaining approval from the Board of Directors. As at December 31, 2017, no stock options are granted under such terms.

**27. Retained Earnings**

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

*(in thousands of Korean won)*

|                                  | <b>2017</b>   | <b>2016</b>   |
|----------------------------------|---------------|---------------|
| Legal reserves <sup>1</sup>      | ₩ 1,171,886   | ₩ 1,019,450   |
| Discretionary reserves           | 100,922,491   | 100,922,491   |
| Unappropriated retained earnings | 185,973,979   | 168,294,515   |
|                                  | ₩ 288,068,356 | ₩ 270,236,456 |

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

**28. Other Components of Equity**

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

| <i>(in thousands of Korean won)</i>                       | <b>2017</b> |        | <b>2016</b> |        |
|---|-------------|--------|-------------|--------|
| Gain on valuation of available- for-sale financial assets | ₩           | 11,993 | ₩           | -      |
| Exchange differences on translation of foreign operations |             | 17,637 |             | 31,710 |
|   | ₩           | 29,630 | ₩           | 31,710 |

**29. Expenses by Nature**

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

| <i>(in thousands of Korean won)</i>  | <b>2017</b> |              | <b>2016</b> |             |
|--|-------------|--------------|-------------|-------------|
| Changes in finished goods and work in progress   | ₩           | (14,854,048) | ₩           | 17,769,699  |
| Merchandise sold   |             | 80,456,858   |             | 58,210,671  |
| Raw materials and supplies used  |             | 510,754,204  |             | 420,100,559 |
| Employee benefit expenses  |             | 41,161,080   |             | 48,492,742  |
| Depreciation and amortization  |             | 21,133,209   |             | 22,142,665  |
| Transportation expenses  |             | 11,834,069   |             | 10,967,425  |
| Utilities  |             | 16,625,322   |             | 16,298,936  |
| Others   |             | 27,999,479   |             | 30,482,212  |
| Total of cost of sales, selling, general and administrative expenses, and distribution costs | ₩           | 695,110,173  | ₩           | 624,464,909 |

**HYUNDAI BNG STEEL CO., LTD. and Subsidiary**  
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**30. Selling and Administrative Expenses**

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

| <i>(in thousands of Korean won)</i> | <b>2017</b> |                   | <b>2016</b> |                   |
|-------------------------------------|-------------|-------------------|-------------|-------------------|
| Salaries                            | ₩           | 10,324,777        | ₩           | 10,279,849        |
| Post-employment benefits            |             | 1,929,068         |             | 1,911,550         |
| Employee welfare benefits           |             | 2,082,904         |             | 2,388,268         |
| Service fees                        |             | 4,758,638         |             | 3,203,142         |
| Depreciation                        |             | 865,280           |             | 994,293           |
| Amortization                        |             | 182,598           |             | 720,448           |
| Impairment on receivables           |             | 239,657           |             | 196,178           |
| Research and development            |             | 63,004            |             | 353,775           |
| Operational expenses                |             | 1,828,590         |             | 1,819,816         |
| Repair and maintenances             |             | 324,003           |             | 189,967           |
| Outsourcing                         |             | 757,674           |             | 853,978           |
| Travel                              |             | 821,332           |             | 920,175           |
| Others                              |             | 2,845,710         |             | 2,456,415         |
|                                     | ₩           | <u>27,023,235</u> | ₩           | <u>26,287,854</u> |

**31. Other Income and Expenses**

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

| <i>(in thousands of Korean won)</i>               | 2017 |           | 2016 |            |
|---|------|-----------|------|------------|
| Other income                                      |      |           |      |            |
| Interest income                                   | ₩    | 529,062   | ₩    | 613,164    |
| Dividend income                                   |      | 1,000     |      | 1,000      |
| Rental income                                     |      | 1,754,046 |      | 1,602,616  |
| Gain on foreign currency transactions             |      | 2,967,296 |      | 2,984,767  |
| Gain on foreign currency translation              |      | 110,801   |      | 177,212    |
| Gain on valuation of derivatives                  |      | -         |      | 1,643,104  |
| Gain on transactions of derivatives               |      | 700,183   |      | 789,296    |
| Gain on disposal of property, plant and equipment |      | -         |      | 72,985     |
| Miscellaneous gain                                |      | 2,423,601 |      | 2,160,488  |
|   | ₩    | 8,485,989 | ₩    | 10,044,632 |

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(in thousands of Korean won)

|  | 2017                | 2016                |
|--|---------------------|---------------------|
| <b>Other expenses</b>                                |                     |                     |
| Loss on foreign currency transactions                | ₩ 2,825,511         | ₩ 3,343,970         |
| Loss on foreign currency translation                 | 810,009             | 136,074             |
| Depreciation of investment property                  | 162,890             | 162,890             |
| Loss on disposal of trade receivables                | 329,233             | 58,275              |
| Impairment loss on available-for-sale securities     | -                   | 25,565              |
| Loss on transaction of available-for-sale securities | -                   | 734,675             |
| Impairment loss on property, plant, and equipment    | -                   | 3,446,437           |
| Loss on disposal of property, plant and equipment    | 1,868,686           | 1,402,006           |
| Loss on valuation of derivatives                     | 1,177,497           | 540                 |
| Loss on transactions of derivatives                  | 2,251,909           | 1,323,739           |
| Loss on investment in associates transactions        | -                   | 1,254,697           |
| Donations  | 235,000             | 250,000             |
| Miscellaneous losses                                 | 938,651             | 794,323             |
|  | <u>₩ 10,599,386</u> | <u>₩ 12,933,191</u> |

**32. Finance Income and Costs**

Finance income and costs for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

|  | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>Finance income</b>                  |                    |                    |
| Interest income                        | ₩ 289,151          | ₩ 338,738          |
| Gains on foreign currency transactions | 2,577,733          | 2,396,011          |
| Gains on foreign currency translation  | 1,828,173          | 687                |
|  | <u>₩ 4,695,057</u> | <u>₩ 2,735,436</u> |
| <b>Finance cost</b>                    |                    |                    |
| Interest expense                       | ₩ 3,253,129        | ₩ 3,855,370        |
| Loss on foreign currency transactions  | 1,453,278          | 1,071,116          |
| Loss on foreign currency translation   | 25,862             | 2,199,061          |
|  | <u>₩ 4,732,269</u> | <u>₩ 7,125,547</u> |

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**33. Earnings per Share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Controlling Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company and held as treasury shares. Preferred shareholders are entitled to non-cumulative and non-participating preferred dividends at a rate without ceiling and have rights to participate in profit sharing. The Company includes the said preferred shares in its earnings per share calculation. Details of earnings per share calculation by stock types are presented below.

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

| <i>(in thousands of Korean won)</i>                                  | <b>2017</b> |                   | <b>2016</b> |                   |
|--|-------------|-------------------|-------------|-------------------|
| Profit attributable to the equity holders of the Controlling Company | ₩           | 19,616,185        | ₩           | 21,712,385        |
| Weighted average number of ordinary shares outstanding               |             | 15,078,811 shares |             | 15,078,811 shares |
| Basic earnings per ordinary share <i>(in Korean won)</i>             | ₩           | 1,301             | ₩           | 1,440             |

Basic earnings per share for preferred shares for the years ended December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i>  | <b>2017</b> |                | <b>2016</b> |                |
|--|-------------|----------------|-------------|----------------|
| Profit attributable to the preferred equity holders of the Controlling Company | ₩           | 148,400        | ₩           | 163,671        |
| Weighted average number of preferred shares outstanding                        |             | 109,852 shares |             | 109,852 shares |
| Basic earnings per preferred share <i>(in Korean won)</i>                      | ₩           | 1,351          | ₩           | 1,490          |

The Group did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

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**34. Cash Flows from Operations**

Adjustments to the cash flows from operations for the years ended December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i>                  | <b>2017</b>  | <b>2016</b>  |
|--|--------------|--------------|
| Profit before income tax                             | ₩ 28,593,086 | ₩ 29,113,897 |
| Adjustments for:                                     |              |              |
| Interest income                                      | (818,212)    | (951,902)    |
| Interest expense                                     | 3,253,130    | 3,855,370    |
| Dividend income                                      | (1,000)      | (1,000)      |
| Depreciation   | 20,950,611   | 21,422,217   |
| Depreciation of investment property                  | 162,890      | 162,890      |
| Amortization   | 182,598      | 720,448      |
| Impairment loss on receivables                       | 239,657      | 196,178      |
| Post-employment benefits                             | 4,114,207    | 4,689,146    |
| Gain on foreign currency translation                 | (1,938,747)  | (177,899)    |
| Loss on foreign currency translation                 | 798,971      | 2,335,135    |
| Loss on disposal of trade receivables                | 329,233      | 58,275       |
| Loss on investment in associates transactions        | -            | 1,254,697    |
| Impairment loss on available-for-sale securities     | -            | 25,565       |
| Loss on transaction of available-for-sale securities | -            | 734,675      |
| (Reversal of) Loss in valuation of inventories       | 1,500,978    | (2,334,076)  |
| Gain on disposal of property, plant and equipment    | -            | (72,985)     |
| Loss on disposal of property, plant and equipment    | 1,868,686    | 1,402,006    |
| Impairment loss on property, plant and equipment     | -            | 3,446,437    |
| Gain on valuation of derivative                      | -            | (1,643,104)  |
| Loss on valuation of derivative                      | 1,177,497    | 540          |
| Share of gain of associates                          | -            | (49,889)     |
| Additional other provisions                          | 2,157,628    | 8,907,772    |
| Others   | 482,958      | 161,113      |
| Movements in working capital accounts :              |              |              |
| Decrease (increase) in trade receivables             | 10,546,071   | (13,441,818) |
| Increase in other receivables                        | (1,031,187)  | (160,750)    |
| Decrease (increase) in advance payments              | 208,664      | (867,918)    |
| Decrease in prepaid value added tax                  | -            | 136,345      |
| Decrease (increase) in prepaid expenses              | (17,863)     | 66,496       |
| Decrease (increase) in other quick assets            | (5,150)      | 812          |

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|   |                     |                     |
|---|---------------------|---------------------|
| Decrease (increase) in derivatives              | 1,637,992           | (47,710)            |
| Decrease (increase) in inventories              | (22,034,878)        | 9,394,688           |
| Increase in trade payables                      | 15,126,220          | 10,924,139          |
| Increase (decrease) in advance received         | 72,332              | (168,715)           |
| Decrease in withholdings                        | (106,225)           | (5,927)             |
| Increase (decrease) in value added tax withheld | (1,272,621)         | 1,794,418           |
| Increase (decrease) in other payables           | (1,155,360)         | 1,858,006           |
| Increase in accrued expenses                    | 3,196,019           | 1,821,761           |
| Increase in deposits received                   | 66,000              | -                   |
| Increase in long-term accrued expenses          | 225,230             | -                   |
| Succession of post-employment benefit           | 7,898               | -                   |
| Post-employment benefit payment                 | 419,827             | (2,707,582)         |
| Payment of plan assets                          | (3,528,522)         | (3,094,719)         |
|   | <u>₩ 65,408,618</u> | <u>₩ 78,757,032</u> |

Major non-cash transactions for the years ended December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i>                                  | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|
| Construction-in-progress reclassification                            | ₩ 3,655,883 | ₩ 3,404,313 |
| Machinery in transit reclassification                                | 796,114     | 4,493,516   |
| Current portion of bonds payable                                     | 29,945,534  | 29,954,239  |
| Receivables and non-trade receivables written off                    | -           | 279,059     |
| Reclassification of trade receivables to long-term trade receivables | 1,057,250   | -           |
| Other payables of acquisition of property, plant and equipment       | 2,604,627   | (1,484,846) |

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Changes in liabilities arising from financial activities for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

|                             | 2017                                  |                                  |               |               |
|-----------------------------|---------------------------------------|----------------------------------|---------------|---------------|
|                             | Liabilities from financing activities |                                  |               |               |
|                             | Short-term borrowings                 | Current portion of bonds payable | Bonds payable | Total         |
| At January 1, 2016          | ₩ 43,383,088                          | ₩ 29,985,066                     | ₩ 59,806,575  | ₩ 133,174,729 |
| Cash flows                  | 7,216,485                             | (30,000,000)                     | -             | (22,783,515)  |
| Exchange differences        | (1,822,726)                           | -                                | -             | (1,822,726)   |
| Other non-financial changes | -                                     | 29,988,665                       | (29,867,004)  | 121,661       |
| At December 31, 2017        | ₩ 48,776,847                          | ₩ 29,973,731                     | ₩ 29,939,571  | ₩ 108,690,149 |

**35. Related Party Transactions**

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

|                         | Percentage of common ownership (%) |       |
|-------------------------|------------------------------------|-------|
|                         | 2017                               | 2016  |
| Parent Company          |                                    |       |
| Hyundai Steel Co., Ltd. | 41.12                              | 41.12 |

Other related parties include Hyundai Materials Corp., HYUNDAI MATERIALS JAPAN CORP., KIA Motors Corporation and so on.

The Group has entered into purchasing card transactions (Limit of ₩ 3,000 million) with Hyundai Card Co., Ltd., other related parties.

As Hyundai Motor Co., Ltd. and Hyundai Rotem Corp. etc. are not related parties of the Group in accordance with Korean IFRS 1024, and belongs to the Large Enterprise Group, to which the Group also belongs in accordance with the Monopoly Regulation and Fair Trade Act. These entities are classified to other.



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

*(in thousands of Korean won)*

|                       |   | <b>2017</b>  |                    |                 |                       |   |
|-----------------------|---|--------------|--------------------|-----------------|-----------------------|---|
|                       |   | <b>Sales</b> | <b>Other sales</b> | <b>Purchase</b> | <b>Other purchase</b> | <b>Acquisition of property, plant and equipment</b> |
| Parent company        | ₩ | 454,948      | ₩ 123,367          | ₩ -             | ₩ -                   | ₩ -   |
| Other related parties |   | 80,722,121   | 12,000             | 126,445,639     | 6,539,931             | 225,064   |
| Other                 |   | 122,570,631  | 19,601             | -               | 2,439,252             | 416,676   |

*(in thousands of Korean won)*

|                        |   | <b>2016</b>  |                    |                 |                       |   |
|------------------------|---|--------------|--------------------|-----------------|-----------------------|---|
|                        |   | <b>Sales</b> | <b>Other sales</b> | <b>Purchase</b> | <b>Other purchase</b> | <b>Acquisition of property, plant and equipment</b> |
| Parent company         | ₩ | 328,415      | ₩ 73,680           | ₩ 929,193       | ₩ -                   | ₩ -   |
| Associate <sup>1</sup> |   | 52,168,448   | 612,736            | 1,485,297       | 2,258,049             | -   |
| Other related parties  |   | 78,120,018   | 146,126            | 170,562,160     | 6,350,968             | 21,055  |
| Other                  |   | 121,510,043  | 2,000              | -               | 2,535,968             | 299,532   |

<sup>1</sup> Associates were Ad Stainless Co., Ltd. and Ad Steel Co., Ltd., on which the Company had no significant influence due to the cancellation of potential voting rights and the sale of shares. Associates has been excluded from related parties in 2016 and the transactions before the date of exclusion from related parties are reflected.

The Group issued ₩ 30,000 million of 2017th unsecured publicly-subscribed corporate bond in 2016 and ₩ 10,000 million was acquired and brokered by HMC Investment & Securities Co., Ltd., which was classified as other.

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

*(in thousands of Korean won)*

|                       | <b>2017</b>              |               |                       |               |
|-----------------------|--------------------------|---------------|-----------------------|---------------|
|                       | <b>Receivables</b>       |               | <b>Payables</b>       |               |
|                       | <b>Trade receivables</b> | <b>Others</b> | <b>Trade payables</b> | <b>Others</b> |
| Parent company        | ₩ 215,426                | ₩ 13,901      | ₩ -                   | ₩ -           |
| Other related parties | 16,617,172               | 1,100         | 7,810,282             | 462,126       |
| Other                 | 23,785,535               | 51,733        | 243,598               | 925,743       |

*(in thousands of Korean won)*

|                       | <b>2016</b>              |               |                       |               |
|-----------------------|--------------------------|---------------|-----------------------|---------------|
|                       | <b>Receivables</b>       |               | <b>Payables</b>       |               |
|                       | <b>Trade receivables</b> | <b>Others</b> | <b>Trade payables</b> | <b>Others</b> |
| Parent company        | ₩ 173,813                | ₩ 7,833       | ₩ -                   | ₩ -           |
| Other related parties | 19,777,423               | 44,606        | 5,232,575             | 901,596       |
| Other                 | 29,205,735               | 69,712        | 177,145               | 1,509,462     |

**Key management compensation**

Key management includes directors (registered and non-registered), members of the board of directors and the head of internal audit. The compensation paid or payable to key management for employee services for the years ended December 31, 2017 and 2016, are shown below:

| <i>(in thousands of Korean won)</i> | <b>2017</b>        | <b>2016</b>        |
|-------------------------------------|--------------------|--------------------|
| Salaries                            | ₩ 3,898,916        | ₩ 4,359,042        |
| Post-employment benefits            | 1,090,652          | 1,118,012          |
|                                     | <u>₩ 4,989,568</u> | <u>₩ 5,477,054</u> |