

Halla Holdings Corporation and Subsidiaries

**Consolidated Financial Statements
December 31, 2019 and 2018**

Halla Holdings Corporation and Subsidiaries

Index

December 31, 2019 and 2018

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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
Halla Holdings Corporation

Opinion

We have audited the accompanying consolidated financial statements of Halla Holdings Corporation and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

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

Key Audit Matters

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

Evaluation of Impairment of Investments in Associates

As discussed in Note 13, the Group holds 30.25% of the shares of Mando Corporation, which classified as an associate and accounted for using equity method as described in Note 2.3. The Group focused on the prolonged decline in the fair value of investments in the associate below its cost and performed an impairment test whether there is an indication of impairment in accordance with Korean IFRS 1036. The Group estimated the recoverable amount based on the value in use, and engaged an independent external expert to measure the recoverable amount.

We focused on this area in consideration of the fact that the future cash flow forecasts included in the valuation of investments in associates include management assumptions and judgments about the financial budget forecasts, growth rates and discount rates.

How our audit addressed the Key Audit Matter

We performed the following audit procedures to test the method of evaluation of impairment of investments in associates and the underlying data used for the estimation to evaluate whether assumptions used by the Group management were reasonable.

- We performed lookback analysis by comparing the estimation of prior year to actual results whether estimates has overly optimistic assumptions.
- We evaluated the adequacy of valuation model used by management to estimate value in use.
- We examined estimates of future cash flows is consistent with the financial forecast approved by management.
- We evaluated the reasonableness of key assumptions used to estimate recoverable amount.
- We assessed the result of sensitivity analysis to changes in discount rates and others used by management to determine the effect of changes in assumptions on impairment assessment.
- We evaluated the competence and objectivity of the external valuation expert.

In addition, we included internal experts with expertise in valuation model in the engagement team. The internal experts evaluated the underlying data and assumptions used in cash flow estimates and reviewed reasonableness of assumptions and valuation methods used in fair value measurement.

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 consolidated financial statements may differ from those generally accepted and applied in other countries.

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

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

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

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

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

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

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

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

represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Hyo-Jin Lee, Certified Public Accountant.

Seoul, Korea
March 12, 2020

This report is effective as of March 12, 2020, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Halla Holdings Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2019 and 2018

| <i>(in thousands of Korean won)</i> | Notes | 2019 | 2018 |
|---|--------------|----------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | 113,213,849 | 85,620,327 |
| Trade receivables | 6,8,33 | 115,772,343 | 160,594,764 |
| Lease receivables | 6,8,33,34 | 1,173,971 | - |
| Loans and other receivables | 6,8,33 | 6,364,724 | 21,565,775 |
| Derivative financial assets | 5,6,12 | 270,372 | 324,396 |
| Inventories | 11 | 81,171,466 | 78,194,532 |
| Other current assets | 9,17,34 | 4,333,581 | 4,194,692 |
| | | <u>322,300,306</u> | <u>350,494,486</u> |
| Non-current assets held for sale | 36 | <u>-</u> | <u>18,002,559</u> |
| Non-current assets | | | |
| Loans and other receivables | 5,6,8,9,33 | 17,850,278 | 10,666,575 |
| Financial assets at fair value through profit or loss | 5,6,8 | 4,095,895 | 637,193 |
| Financial assets at fair value through other comprehensive income | 5,6,8 | 8,212,084 | 14,168,719 |
| Derivative financial assets | 5,6,12 | 15,832,589 | 15,068,249 |
| Investments in associates and joint venture | 7,13 | 912,604,895 | 876,021,254 |
| Property, plant and equipment | 7,14 | 266,675,244 | 262,403,196 |
| Intangible assets | 7,15 | 24,267,330 | 29,191,085 |
| Right-of-use assets | 7,34 | 40,683,860 | - |
| Investment properties | 7,16 | 142,614,959 | 142,631,081 |
| Deferred tax assets | 23 | 5,264,030 | 4,864,524 |
| Other non-current assets | | 1,920 | - |
| | | <u>1,438,103,084</u> | <u>1,355,651,876</u> |
| Total assets | | <u>1,760,403,390</u> | <u>1,724,148,921</u> |

Halla Holdings Corporation and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2019 and 2018

| <i>(in thousands of Korean won)</i> | Notes | 2019 | 2018 |
|---|--------------|----------------------|----------------------|
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 4,6,33 | 117,638,997 | 153,995,129 |
| Other payables | 4,6,18,33 | 33,535,047 | 26,478,508 |
| Short-term borrowings | 4,6,21 | 41,326,918 | 53,901,827 |
| Current portion of long-term borrowings | 4,6,21 | 79,342,771 | - |
| Current portion of debentures | 4,6,21 | 195,918,353 | 39,948,111 |
| Provisions | 20,34 | 583,356 | 672,245 |
| Current tax liabilities | 23 | 3,791,277 | 8,436,620 |
| Current Lease liabilities | 34 | 15,438,759 | - |
| Other current liabilities | 9,22,34 | 6,966,029 | 5,108,712 |
| | | <u>494,541,507</u> | <u>288,541,152</u> |
| Non-current liabilities held for sale | 36 | <u>-</u> | <u>1,797,621</u> |
| Non-current liabilities | | | |
| Debentures | 4,5,6,21 | 151,597,710 | 288,515,623 |
| Long-term borrowings | 4,5,6,21,33 | 138,912,101 | 207,229,606 |
| Net defined benefit liabilities | 19 | 11,611,862 | 10,876,895 |
| Provisions | 20,34 | 2,023,040 | - |
| Deferred tax liabilities | 23 | 38,193,459 | 34,763,509 |
| Other payables | 4,5,6,18 | 1,251,041 | 12,163,366 |
| Derivative financial liabilities | 4,5,6,12 | 7,639,834 | 11,520,123 |
| Non-current Lease liabilities | 34 | 25,670,072 | - |
| Other non-current liabilities | 22 | 2,867,449 | 3,493,231 |
| | | <u>379,766,568</u> | <u>568,562,353</u> |
| Total liabilities | | <u>874,308,075</u> | <u>858,901,126</u> |
| Equity | | | |
| Share capital | 24 | 55,086,180 | 55,086,180 |
| Share premium | 24 | 262,014,748 | 262,014,748 |
| Other components of equity | 24 | (21,375,964) | (35,062,119) |
| Accumulated other comprehensive income | 24 | (52,676,400) | (56,015,764) |
| Retained earnings | 25 | 643,029,291 | 639,210,575 |
| Equity attributable to equity holders of the Company | | <u>886,077,855</u> | <u>865,233,620</u> |
| Non-controlling interest | 1 | 17,460 | 14,175 |
| Total equity | | <u>886,095,315</u> | <u>865,247,795</u> |
| Total liabilities and equity | | <u>1,760,403,390</u> | <u>1,724,148,921</u> |

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

Halla Holdings Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2019 and 2018

| <i>(in thousands of Korean won, except per share amounts)</i> | Notes | 2019 | 2018 |
|---|--------------|--------------------|---------------------|
| Revenue and share of profit of associates and joint venture | 33,35 | | |
| Sale of goods | | 499,561,503 | 570,372,385 |
| Rendering of services | | 231,197,445 | 266,281,052 |
| Royalty income | | 26,725,920 | 26,319,213 |
| Share of profit of associates and joint venture | | 40,880,290 | 23,575,633 |
| | | <u>798,365,158</u> | <u>886,548,283</u> |
| Cost of sales | 27,33 | <u>639,470,038</u> | <u>756,068,165</u> |
| Gross profit | | 158,895,120 | 130,480,118 |
| Selling and administrative expenses | 26,27 | 83,258,988 | 72,424,116 |
| Bad debt expenses | | <u>218,361</u> | <u>107,131</u> |
| Operating profit | | 75,417,771 | 57,948,871 |
| Other income | 28 | 9,571,708 | 16,641,405 |
| Other expenses | 28 | 7,641,346 | 15,800,259 |
| Interest income using the effective interest rate method | 29 | 1,411,689 | 1,386,723 |
| Other finance income | 29 | 394,250 | 457,300 |
| Finance costs | 29 | <u>27,045,428</u> | <u>25,395,567</u> |
| Profit before income tax | | 52,108,644 | 35,238,473 |
| Income tax expense | 23 | <u>9,637,190</u> | <u>8,923,657</u> |
| Profit from continuing operations | | 42,471,454 | 26,314,816 |
| Loss from discontinued operations | 36 | <u>(1,408,540)</u> | <u>(13,210,389)</u> |
| Profit for the year | | <u>41,062,914</u> | <u>13,104,427</u> |
| Other comprehensive income, net of tax | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Currency translation differences | 24 | 483,955 | 2,362,670 |
| Share of other comprehensive income of associates and joint venture | 24 | 5,411,873 | (3,998,505) |
| Cash flow hedges | 24 | <u>(69,654)</u> | <u>141,637</u> |
| | | <u>5,826,174</u> | <u>(1,494,198)</u> |
| Items that will not be subsequently reclassified to profit or loss: | | | |
| Gain (loss) on valuation of equity instruments at fair value through other comprehensive income | 24 | (2,485,734) | 1,799,237 |
| Remeasurements of net defined benefit liability | | (1,455,150) | 948,187 |
| Share of remeasurement for net defined benefit liability of associates and joint venture | 19 | <u>142,054</u> | <u>(8,233,198)</u> |
| | | <u>(3,798,830)</u> | <u>(5,485,774)</u> |
| | | <u>2,027,344</u> | <u>(6,979,972)</u> |
| Total comprehensive income for the year | | <u>43,090,258</u> | <u>6,124,455</u> |
| Profit for the year attributable to: | | | |
| Equity holders of the Company | | | |
| Profit from continuing operations | | 42,469,245 | 26,303,898 |
| Loss from discontinued operations | | <u>(1,408,540)</u> | <u>(13,193,862)</u> |
| | | 41,060,705 | 13,110,036 |
| Non-controlling interest | | | |
| Profit from continuing operations | | 2,209 | 10,919 |
| Loss from discontinued operations | | <u>-</u> | <u>(16,528)</u> |
| | | 2,209 | (5,609) |
| Total comprehensive income for the year is attributable to: | | | |
| Equity holders of the Company | | 43,086,974 | 6,129,069 |
| Non-controlling interest | 1 | 3,284 | (4,614) |
| Earnings per share attributable to equity holders of the Company during the year (in Korean won) | 30 | | |
| Basic earnings (losses) per share | | | |
| From continuing operations | | 4,055 | 2,472 |
| From discontinued operations | | (134) | (1,240) |

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

Halla Holdings Corporation and Subsidiaries
Consolidated Statements of Changes in Equity
Years Ended December 31, 2019 and 2018

(in thousands of Korean won)

| | Attributable to equity holders of the Company | | | | | | Total equity |
|---|---|--------------------|----------------------------|--|--------------------|--------------------------|--------------------|
| | Share capital | Share premium | Other components of equity | Accumulated other comprehensive income | Retained earnings | Non-controlling interest | |
| Balance at January 1, 2018 | 55,086,180 | 262,014,748 | (28,832,641) | (56,319,808) | 647,788,818 | 30,369 | 879,767,666 |
| Comprehensive income: | | | | | | | |
| Profit for the year | - | - | - | - | 13,110,037 | (5,609) | 13,104,428 |
| Gain on valuation of equity instruments at fair value through other comprehensive income | - | - | - | 1,799,237 | - | - | 1,799,237 |
| Cash flow hedges | - | - | - | 141,637 | - | - | 141,637 |
| Share of other comprehensive income of associates and joint venture | - | - | - | (3,998,505) | - | - | (3,998,505) |
| Share of remeasurements for net defined benefit liability of associates and joint venture | - | - | - | - | (8,233,198) | - | (8,233,198) |
| Changes in other components of equity of associates and joint venture | - | - | (27,454) | - | - | - | (27,454) |
| Remeasurements of net defined benefit liability | - | - | - | - | 948,187 | - | 948,187 |
| Currency translation differences | - | - | - | 2,361,675 | - | 996 | 2,362,671 |
| Loss of control of subsidiaries | - | - | - | - | - | (11,580) | (11,580) |
| Transactions with equity holders: | | | | | | | |
| Dividends to equity holders of the Company | - | - | - | - | (14,403,269) | - | (14,403,269) |
| Acquisition of treasury shares | - | - | (6,202,024) | - | - | - | (6,202,024) |
| Balance at December 31, 2018 | <u>55,086,180</u> | <u>262,014,748</u> | <u>(35,062,119)</u> | <u>(56,015,764)</u> | <u>639,210,575</u> | <u>14,176</u> | <u>865,247,796</u> |
| Balance at January 1, 2019 (before adjustments) | 55,086,180 | 262,014,748 | (35,062,119) | (56,015,764) | 639,210,575 | 14,176 | 865,247,796 |
| Effect on changes in accounting policy of associates | - | - | - | - | 693,469 | - | 693,469 |
| Balance at January 1, 2019 (after adjustments) | <u>55,086,180</u> | <u>262,014,748</u> | <u>(35,062,119)</u> | <u>(56,015,764)</u> | <u>639,904,044</u> | <u>14,176</u> | <u>865,941,265</u> |
| Comprehensive income: | | | | | | | |
| Profit for the year | - | - | - | - | 41,060,707 | 2,209 | 41,062,916 |
| Loss on valuation of equity instruments at fair value through other comprehensive income | - | - | - | (2,485,734) | - | - | (2,485,734) |
| Cash flow hedges | - | - | - | (69,654) | - | - | (69,654) |
| Share of other comprehensive income of associates and joint venture | - | - | - | 5,411,873 | - | - | 5,411,873 |
| Share of remeasurements for net defined benefit liability of associates and joint venture | - | - | - | - | 142,054 | - | 142,054 |
| Remeasurements of net defined benefit liability | - | - | - | - | (1,455,150) | - | (1,455,150) |
| Currency translation differences | - | - | - | 482,879 | - | 1,076 | 483,955 |
| Transactions with equity holders: | | | | | | | |
| Dividends to equity holders of the Company | - | - | - | - | (21,030,124) | - | (21,030,124) |
| Acquisition of treasury shares | - | - | (1,906,084) | - | - | - | (1,906,084) |
| Retirement of treasury shares | - | - | 15,592,239 | - | (15,592,239) | - | - |
| Balance at December 31, 2019 | <u>55,086,180</u> | <u>262,014,748</u> | <u>(21,375,964)</u> | <u>(52,676,400)</u> | <u>643,029,292</u> | <u>17,461</u> | <u>886,095,317</u> |

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

Halla Holdings Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

| <i>(in thousands of Korean won)</i> | Notes | 2019 | 2018 |
|--|--------------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 31 | 58,866,226 | 4,837,003 |
| Interest received | | 1,030,637 | 1,147,619 |
| Interest paid | | (17,838,049) | (21,702,605) |
| Dividends received | | 14,195,496 | 45,428,202 |
| Income tax paid | | (10,516,835) | (28,896,477) |
| Net cash inflow from operating activities | | <u>45,737,475</u> | <u>813,742</u> |
| Cash flows from investing activities | | | |
| Increase in financial deposits, net | | 12,650,192 | 28,145,343 |
| Increase in loans | | (1,255,605) | (319,484) |
| Decrease in loans | | 1,416,727 | 334,783 |
| Acquisition of financial assets at fair value through profit or loss | | (3,499,929) | 181,790 |
| Acquisition of financial assets at fair value through other comprehensive income | | - | (1,000,029) |
| Net cash increase (decrease) due to transfer of business | | 14,962,706 | (24,424) |
| Payments for acquisition of property, plant and equipment | | (22,939,709) | (27,764,743) |
| Proceeds from disposal of property, plant and equipment | | 167,889 | 38,179,563 |
| Payments for acquisition of intangible assets | | (958,324) | (509,530) |
| Proceeds from disposal of intangible assets | | 3,870,794 | - |
| Net cash inflow from investing activities | | <u>4,414,741</u> | <u>37,223,269</u> |
| Cash flows from financing activities | | | |
| | 31 | | |
| Proceeds from short-term borrowings | | 6,641,409 | 21,900,477 |
| Repayments of short-term borrowings | | (19,846,536) | (57,567,205) |
| Repayments of current portion of long-term borrowings | | - | (202,455) |
| Proceeds from long-term borrowings | | 9,440,501 | 77,777,600 |
| Repayments of long-term borrowings | | - | (4,335,916) |
| Principal repayments of lease liabilities | | (13,570,343) | - |
| Settlement of derivative financial instruments | | (2,060,167) | (908,357) |
| Proceeds from issuance of debentures | | 59,000,000 | 57,000,000 |
| Redemption of debentures | | (40,000,000) | (150,000,000) |
| Payments for issue costs of debentures | | (269,300) | (274,660) |
| Dividends paid | | (1,906,084) | (6,202,024) |
| Acquisition of treasury shares | | (21,030,124) | (14,403,269) |
| Net cash outflow from financing activities | | <u>(23,600,644)</u> | <u>(77,215,809)</u> |
| Exchange gains on cash and cash equivalents | | 1,041,950 | 1,387,824 |
| Net increase (decrease) in cash and cash equivalents | | 27,593,522 | (37,790,974) |
| Cash and cash equivalents at the beginning of the year | | 85,620,327 | 123,411,301 |
| Cash and cash equivalents at the end of the year | | <u>113,213,849</u> | <u>85,620,327</u> |

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

Halla Holdings Corporation and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2019 and 2018

1. General Information

Halla Holdings Corporation (the “Company”) and its subsidiaries (collectively referred to as the “Group”) were established in November 1999 to engage in the manufacture and sale of automotive components such as brakes, steering and suspension systems. On May 19, 2010, the Company listed its shares on the Korea Exchange (KRX) Korea Composite Stock Price Index (KOSPI) Market. On September 1, 2014 (the effective date of spin-off), the Company was split into Halla Holdings Corporation which engages in investment business and Mando Corporation which engages in manufacturing and selling automotive parts, in accordance with the resolution of the shareholders’ meeting held on July 28, 2014. On October 6, 2014, the Company re-listed its shares on the KRX. On July 1, 2015 (the effective date of merger), the Company merged with its subsidiary, Halla Meister Ltd.

Details of consolidated subsidiaries as at December 31, 2019, are as follows:

| Subsidiary | Abbreviation * | Main business | Percentage of ownership (%) | | | Total | Location | Closing month |
|---|----------------|---|-----------------------------|--------------|--------------------------|-------|----------|---------------|
| | | | The Company | Subsidiaries | Non-controlling interest | | | |
| Uriman, Inc. | URIMAN | Selling automotive parts business | 100 | - | - | 100 | USA | December |
| Meister Logistics Corporation America | MLCA | Distributing automotive parts business | 100 | - | - | 100 | USA | December |
| Halla Meister Global Transportation, LLC. | HMGT | Distributing automotive parts business | - | 51 | 49 | 100 | USA | December |
| Halla Meister Shanghai Trading Co., Ltd. | HMTC | Distributing automotive parts business | 100 | - | - | 100 | China | December |
| Halla Meister(Suzhou) Logistics Co., Ltd. | HMLC | Distributing automotive parts business | 100 | - | - | 100 | China | December |
| HALLA CORPORATION EUROPE OTOMOTIV YEDEK PARCALARI SANAYI VE TICARET ANONIM SİRKETİ ¹ | HCE | Distributing automotive parts business | 100 | - | - | 100 | Turkey | December |
| WECO (formerly Woori Engineering Co., Ltd.) | WECO | Manufacturing and selling automotive parts business | 100 | - | - | 100 | Korea | December |
| J.J Halla Corporation | JJH | Real estate development and investment | 100 | - | - | 100 | Korea | December |

¹ In 2019, the entity was newly established as a wholly owned subsidiary of the Group.

Subsidiaries excluded from the consolidation for the year ended December 31, 2019:

| Subsidiary | Reason |
|--------------------------------------|--|
| One Stop Parts Source ¹ | Disposal of the business of subsidiary held by the Group and liquidation |
| One Stop Undercar, Inc. ¹ | |

¹ During the year, OSPS and OSU, a subsidiary of URIMAN, were excluded from the consolidation, as disposal of the business and liquidation.

Halla Holdings Corporation and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

Summarized financial information of consolidated subsidiaries used in the preparation of consolidated financial statements is as follows:

| December 31, 2019 | | | | |
|-------------------------------------|-------------|-------------|------------|--------------------------------------|
| <i>(in thousands of Korean won)</i> | Assets | Liabilities | Equity | Accumulated non-controlling interest |
| URIMAN | 48,738,527 | 32,907,390 | 15,831,137 | - |
| MLCA and its subsidiary | 11,428,823 | 6,119,078 | 5,309,745 | 17,460 |
| HMTC | 3,634,521 | 3,666,345 | (31,824) | - |
| HMLC | 21,889,978 | 15,601,495 | 6,288,483 | - |
| HCE | 7,060,688 | 3,886,094 | 3,174,594 | - |
| WECO | 12,295,857 | 6,678,398 | 5,617,459 | - |
| JJH | 329,355,234 | 327,419,359 | 1,935,875 | - |

| December 31, 2018 | | | | |
|-------------------------------------|-------------|-------------|------------|--------------------------------------|
| <i>(in thousands of Korean won)</i> | Assets | Liabilities | Equity | Accumulated non-controlling interest |
| URIMAN and its subsidiaries | 60,109,803 | 44,707,886 | 15,401,917 | - |
| MLCA and its subsidiary | 17,867,196 | 12,970,058 | 4,897,138 | 14,175 |
| HMTC | 6,306,390 | 5,751,821 | 554,569 | - |
| HMLC | 17,967,442 | 12,349,884 | 5,617,558 | - |
| WECO | 11,118,715 | 5,779,392 | 5,339,323 | - |
| JJH | 331,150,063 | 317,393,240 | 13,756,823 | - |

| 2019 | | | | | |
|-------------------------------------|------------|---------------|----------------------------|---|----------------------------|
| <i>(in thousands of Korean won)</i> | Sales | Profit (loss) | Total comprehensive income | Attribution to non-controlling interest | |
| | | | | Profit | Total comprehensive income |
| URIMAN | 54,651,188 | (118,452) | 429,220 | - | - |
| MLCA and its subsidiary | 30,268,257 | 240,344 | 411,531 | 2,209 | 3,285 |
| HMTC | 11,282,264 | (606,768) | (586,392) | - | - |
| HMLC | 50,204,356 | 577,806 | 670,925 | - | - |
| HCE | 3,785,636 | (93,284) | (93,284) | - | - |
| WECO | 30,067,276 | 278,136 | 278,136 | - | - |
| JJH | 14,319,793 | (11,717,603) | (11,717,603) | - | - |

| 2018 | | | | | |
|-------------------------------------|------------|---------------|----------------------------|---|----------------------------|
| <i>(in thousands of Korean won)</i> | Sales | Profit (loss) | Total comprehensive income | Attribution to non-controlling interest | |
| | | | | Profit | Total comprehensive income |
| URIMAN and its subsidiaries | 46,803,028 | (8,832,005) | (6,607,881) | - | - |
| MLCA and its | 72,850,106 | 481,684 | 683,289 | 10,919 | 11,915 |

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| | | | | | |
|------------|------------|--------------|--------------|---|---|
| subsidiary | | | | | |
| HMTC | 14,342,711 | (374,141) | (370,990) | - | - |
| HMLC | 56,056,412 | 1,243,204 | 1,191,940 | - | - |
| WECO | 25,919,450 | 179,004 | 179,004 | - | - |
| JJH | 16,722,014 | (13,367,967) | (13,607,127) | - | - |

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.

Certain accounts in the comparative financial statements were reclassified to conform with the presentation of the 2019 financial statements. These reclassifications have no impact on the previously reported consolidated profit or net assets.

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 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 consolidated financial statements.

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

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in 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 Policies and Disclosures

2.2.1 New and amended standards 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, 2019.

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(a) Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Lease* replaces Korean IFRS 1017 *Lease*. Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

With implementation of Korean IFRS 1116 *Lease*, the Group has changed accounting policy. The Group has adopted Korean IFRS 1116 retrospectively, as permitted under the specific transitional provisions in the standard, and recognized the cumulative impact of initially applying the standard as at January 1, 2019, the date of initial application. The Group has not restated comparatives for the 2018 reporting period. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 34.

(b) Amendment to Korean IFRS 1109 *Financial Instruments*

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. The amendment does not have a significant impact on the financial statements.

(c) Amendments to Korean IFRS 1019 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendment does not have a significant impact on the financial statements.

(d) Amendments to Korean IFRS 1028 *Investments in Associates and Joint Ventures*

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. The amendments also clarify that Korean IFRS 1109 requirements are applied to long-term interests that form part of the entity's net investment in an associate or joint venture before applying the impairment requirements of Korean IFRS 1028. The amendment does not have a significant impact on the financial statements.

(e) Enactment to Interpretation of Korean IFRS 2123 *Uncertainty over Income Tax Treatments*

The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed.

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The enactment does not have a significant impact on the financial statements.

(f) Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

- Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. The amendment does not have a significant impact on the financial statements.

- Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. The amendment does not have a significant impact on the financial statements.

- Paragraph 57A of Korean IFRS 1012 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendment does not have a significant impact on the financial statements.

- Korean IFRS 1023 *Borrowing Costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. The amendment does not have a significant impact on the financial statements.

2.2.2 New standards and interpretations not yet adopted by the Group

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group.

(a) Amendments to Korean IFRS 1001 *Presentation of Financial Statements* and Korean IFRS 1008 *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

The amendments clarify the explanation of the definition of material and amended Korean IFRS 1001 and Korean IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the

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Group. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

(b) Amendments to Korean IFRS 1103 Business Combination – Definition of a Business

To consider the integration of the required activities and assets as a business, the amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and excludes economic benefits from the lower costs. An entity can apply a concentration test, an optional test, where substantially all of the fair value of gross assets acquired is concentrated in a single asset or a group of similar assets, the assets acquired would not represent a business. These amendments should be applied for annual periods beginning on or after January 1, 2020, and earlier application of permitted. The Group does not expect that these amendments have a significant impact on the financial statements.

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 Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. 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 measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

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Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interest to reflect their relative interest in the subsidiary. Any difference between the amount of the adjustment to non-controlling interest and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Parent Company.

When the Group ceases to consolidate for a subsidiary because of a loss of control, any retained interest in the subsidiary is remeasured to its fair value with the change in carrying amount recognized in profit or loss.

(b) Associates

Associates are all entities over which the Group has significant influence. Investments in associates are initially recognized at acquisition cost and accounted for using the equity method. The Group determines the cost for associates acquired in stages in accordance with 'Cost of each purchase'. The cost of an associate acquired in stages under 'Cost of each method' is measured as the sum of the consideration paid for each purchase (e.g. equity instruments at fair value through other comprehensive income) plus a share of investee's profits and other equity movements. When applying this method, the changes in net assets due to the application of equity method for each purchase are reflected in equity. Any acquisition-related costs are treated as part of the investment in the associate.

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 any objective evidence that the investment in the associate is 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 recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities held at fair value through other comprehensive income are recognized in other comprehensive income. Foreign exchange gains and losses related to borrowings, cash and cash equivalents are presented in ‘finance income and costs’ in the statement of comprehensive income. All other foreign exchange gains and losses are presented in ‘other income and expenses’ in the statement of comprehensive income.

2.5 Financial Assets

(a) Classification and measurement

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Group reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of non-designated equity investment are recognized in profit or loss.

(b) Measurement

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At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other income or expenses' in the year in which it arises.

B. Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'other income' when the right to receive payments is established.

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Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other income and expenses' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(c) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Group applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables.

2.6 Derivative Instruments

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

The Group applies cash flow hedge accounting to the foreign currency forward for hedging foreign exchange fluctuation risks on forecast sales denominated in foreign currency. The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and the ineffective portion is recognized in 'other income (expenses)'. Amounts of changes in fair value of derivatives accumulated in other comprehensive income are recognized as 'sales' for the periods when forecast transactions affect profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss in other comprehensive income is recognized as 'other income (expenses)' immediately.

2.7 Trade Receivables

Trade receivables are recognized initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognized at fair value. Trade receivables are subsequently measured at amortized cost using the effective interest method, less loss allowance.

2.8 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined using the average method, except for inventory-in-transit which is determined using the specific identification method.

2.9 Non-current Assets Held for sale

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

2.10 Property, Plant and Equipment

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

| | Estimated Useful Lives |
|--------------------------------------|-------------------------------|
| Buildings and structures | 20 ~ 40 years |
| Machinery | 5 ~ 15 years |
| Tools | 3 ~ 10 years |
| Furniture and fixtures, and Vehicles | 3 ~ 10 years |

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.11 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.12 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset, and government grants related to income are deferred and later deducted from the related expense.

2.13 Intangible Assets

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Goodwill is recognized as the excess of the aggregate of the consideration transferred and others over the identifiable net assets acquired. If this consideration is lower than the fair value of the net assets, the difference is recognized in profit or loss. Goodwill is carried at cost less accumulated impairment losses. Intangible assets, except for goodwill, are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses. Development costs that are directly attributable to internally generated by the Group are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met.

Membership rights that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

| | Estimated Useful lives |
|-------------------------|-------------------------------|
| Customer relationships | 13, 15 years |
| Software | 3 ~ 10 years |
| Other intangible assets | 5,10,15 years |

2.14 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Group depreciates investment properties, except for land, using the straight-line method over their useful lives of 40 years.

2.15 Impairment of Non-Financial Assets

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

2.16 Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 30

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days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

2.17 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 in this category.

The Group classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss 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 payables', 'borrowings', and 'other payables' in the statement of financial position.

(b) Derecognition

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

2.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

A warranty provision is accrued for the estimated costs of future warranty claims over warranty periods based on historical experience. When there is a probability that an outflow of economic benefits will occur from litigation or disputes and provision for restoration in accordance with lease agreement, and whose amount is reasonably estimable, a corresponding amount of provision is recognized as other provisions in the financial statement. If the expected timing of any resulting outflows of economic benefits is within one year from the end of the reporting period, the amount is classified as current. If not, it is presented as non-current.

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

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

The Group recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, 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, The Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

2.20 Employee Benefits

(a) Post-employment benefits

The Group operates defined benefit pension plans. A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using

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interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

(b) Other long-term employee benefits

The Group provide long-term employee benefits that are entitled to employees with service period for ten 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.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits or when the entity recognizes costs for a restructuring.

2.21 Revenue Recognition

(a) Revenue from Contracts with Customers

(i) Identifying performance obligations

The Group renders services as a holding company and engages in distribution and logistics service business. Revenues are derived from the use of trademarks by its subsidiaries and other companies invested by the Company, IT services, distribution of automotive components, logistics, transportation and complex transportation services, and supplying of semi-finished components business.

The Group exports automotive components under C-term such as CFR, CIF and others. The Group identifies the transport services (including insurance premiums) as a separate performance obligation as the Group provides the transportation service after the title of goods has been transferred (shipment, delivery, etc.) to the customer.

(ii) Performance obligations satisfied over time

The Group renders transportation services and complex transportation services. As a result of review on the transportation service contracts, the Group has concluded that the customer

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simultaneously receives and consumes the benefit provided by the Group's transportation services as the Group performs. Accordingly, revenues from transportation and complex transportation services are recognized over the service period as performance obligations satisfied over time.

(iii) Variable consideration

An amount of consideration from customers can vary because of the Group's policy on sales discounts for early payments and sales incentive.

In accordance with Korean IFRS 1115, the Group estimates an amount of variable consideration by using the expected value method which the Group expects to better predict the amount of consideration. The Group recognize revenue with transaction price considering the amount of variable consideration.

(iv) Principal versus agent

When the Group exports automotive components, the Group provides transportation services identified as a separate obligation in addition to delivery of goods. Based on the analysis of transportation service contracts, the Group has concluded that it acts as a principal for the transportation services and the consideration for the transportation service is recognized as revenue over time from shipment to delivery to the customer.

(b) Royalty income

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

(c) Dividend income

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

2.22 Lease

The Group has adopted Korean IFRS 1116 *Leases* from January 1, 2019.

The Group leases various offices, logistics centers, business residences, cars, forklifts and facilities. Lease contracts are typically made for fixed periods of 1 to 10 years, but may have extension options as described in (a) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Before the date of initial application, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From the date of initial application, leases are recognized as a right-of-use asset and a

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corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group determines the lease term as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. When the lessee and the lessor each has the right to terminate the lease without permission from the other party, the Group should consider a termination penalty in determining the period for which the contract is enforceable.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognized on a

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straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less, excluding property and forklifts that have been renewed for 12 months or less. Low-value assets comprise small items of office furniture such as water purifiers and air cleaners (Note 34).

(a) Extension options

Extension options are included in certain property leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

2.23 Segment Reporting

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief operating decision-maker (Note 7). 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.

2.24 Approval of Issuance of the Financial Statements

The consolidated financial statements 2019 were approved for issue by the Board of Directors on February 6, 2020 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Judgments

The preparation of financial statements requires the Group to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Group's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

3.1 Income Taxes

The Group's taxable income generated from these operations are subject to income taxes based

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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 or 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 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

3.2 Fair Value of Financial Instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The 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.

3.3 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 19).

3.4 Provisions for Product Warranty

The Group generally provides warranty for products or merchandises over the periods from three years. Management determines provisions for future warranty claims with consideration to the recent trend of changes and historical data (Note 20).

3.5 Goodwill

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (Note 15).

3.6 Investments in joint ventures and associates

In assessing the impairment of investments in joint ventures and associates whether there is an indication that they may be impaired, the recoverable amount is determined based on its value-in-use or fair value less cost of disposal (Note 13).

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4. Financial Risk Management

4.1 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management policy 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 a central treasury department (the Company's treasury department) under policies approved by the board of directors.

4.1.1 Market risk

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollar ("USD"), Chinese yuan ("CNY") and Euro ("EUR"). Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in currencies that are not the Group entities' functional currencies. The Group uses foreign currency forward contracts to hedge the foreign exchange risk (Note 12).

If the exchange rate of the Group entities' functional currencies against each foreign currency had changed by 10% with all other variables held constant, the effects on profit before income tax would have been as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | 2018 | |
|---|--------------|--------------|--------------|--------------|
| | 10% increase | 10% decrease | 10% increase | 10% decrease |
| USD | 663,400 | (663,400) | 1,821,536 | (1,821,536) |
| CNY | 43,655 | (43,655) | 353,921 | (353,921) |
| EUR | 71,781 | (71,781) | 167,243 | (167,243) |

The above effects were analysed on the significant monetary assets and liabilities including cash and cash equivalents, trade receivables, other receivables, trade payables, other payables, borrowings and others, denominated in currencies that are not the Group entities' functional currencies.

(b) Price risk

The Group is exposed to price risk arises from equity securities held by the Group that are classified as at fair value through profit or loss and at fair value through other comprehensive income in the consolidated statement of financial position. Most of the Group's marketable equity securities are publicly traded in the KRX KOSPI Market of the Korean Exchange and included in KOSPI equity index.

The analysis is based on the assumption that KOSPI equity index had increased and decreased by 5% with all other variables held constant and all the Group's marketable equity securities

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moved according to the historical correlation with KOSPI equity index.

| <i>(in thousands of Korean won)</i> | 2019 | | 2018 | |
|-------------------------------------|-------------|-------------|-------------|-------------|
| | 5% increase | 5% decrease | 5% increase | 5% decrease |
| Other comprehensive income(loss) | 378,726 | (378,726) | 512,004 | (512,004) |

(c) Interest rate risk

The Group's interest rate risk mainly arises from borrowings with variable interest rates linked to market interest rate changes in the future. The objective of interest rate risk management lies in maximizing corporate value by minimizing uncertainty caused by fluctuations in interest rates and minimizing net interest expense.

To mitigate interest rate risk, the Group manages interest rate risk proactively; reducing borrowings with high interest rates; maintaining an adequate mix between short-term and long-term liabilities and between fixed and variable interest rates; and monitoring weekly and monthly interest rate trends in domestic and international markets.

If interest rates had changed by 100bp with all other variables held constant, the effects on interest expenses related to borrowings with variable interest rates are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | 2018 | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| Interest expenses | 490,707 | (490,707) | 1,331,751 | (1,331,751) |

4.1.2 Credit risk

The Group's credit risk arises from cash and cash equivalents, derivative financial instruments and financial deposits with banks and financial institutions, as well as credit exposures to trade receivables, and loans and other receivables.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If customers relating trade receivables, loans and other receivables are independently rated, these ratings are used. If there is no independent rating, the credit quality of the customer is evaluated taking into account its financial position, past experience and other factors. The Group sets the individual risk limits based on internal or external ratings within the limits previously set by the management. The utilization of credit limits is regularly monitored.

If necessary, the Group requires customers to take guarantee insurance policy or to be guaranteed by bank in order to avoid credit risk. In accordance with the Group's credit risk management policy, the credit quality of trade receivables, and loans and other receivables that are neither past due nor impaired as of the end of reporting period can be measured using the historical experience about customers' financial difficulties, if possible, external ratings (Note 8).

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4.1.3 Liquidity risk

In order to manage liquidity risk, the Group forecasts its cash flows from operating, investing and financing activities by setting up an annual or monthly cash flow forecast and internal financial ratio target. The Group also maintains sufficient liquidity in advance so that the Group does not breach borrowing limits or covenants on any of its borrowings.

At the end of the reporting period, the Group manages the reasonably possible liquidity risk using a variety of financing agreements with financial institutions and others (Note 32). In addition, the Company is able to source funds any time in financial markets because it has good investment credit grade (A0 Stable) from Korea Ratings Corporation, Korea Investors Service Incorporation and Nice Investors Service Co., Ltd., respectively.

The details of the Group's liquidity risk analysis are as follows:

(in thousands of Korean won)

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | | |
|-------------------------------------|--------------------------|-----------------------------------|------------------------------------|---------------------|
| | Less than 1 year | Between 1 year and 2 years | Between 2 years and 5 years | Over 5 years |
| Trade payables | 117,638,997 | - | - | - |
| Other payables | 33,535,047 | 1,251,041 | - | - |
| Debentures | 124,665,725 | 153,766,333 | 104,000,000 | - |
| Short-term and long-term borrowings | 130,267,089 | 138,340,044 | 3,393,432 | - |
| Derivative liabilities | - | - | 7,639,834 | - |
| Lease liabilities | 15,564,191 | 13,037,815 | 12,220,625 | 3,447,112 |

The principal and interest of debentures amounting to ₩ 104,000,000 thousand is presented as 'current portion of debentures' in the consolidated financial statement due to early redemption right under the agreement (Note 21).

(in thousands of Korean won)

| <i>(in thousands of Korean won)</i> | December 31, 2018 | | | |
|-------------------------------------|--------------------------|-----------------------------------|------------------------------------|---------------------|
| | Less than 1 year | Between 1 year and 2 years | Between 2 years and 5 years | Over 5 years |
| Trade payables | 153,995,129 | - | - | - |
| Other payables | 26,478,508 | 908,571 | 11,254,795 | - |
| Debentures | 53,153,210 | 127,371,855 | 178,795,930 | - |
| Short-term and long-term borrowings | 63,397,937 | 87,366,404 | 130,970,885 | - |
| Derivative liabilities | - | - | 11,520,123 | - |

The amounts that included in liquidity risk analysis disclosed are undiscounted cash flows.

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4.2 Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the debt-to-equity ratio which is calculated as total liabilities divided by total equity. The Group's objective of capital risk management is to maintain a sound debt-to-equity ratio consistent with others in the industry and is improving its investment credit rating to AA rated by Nice Investors Service Co., Ltd. The Group monitors the debt-to-equity ratios monthly basis and takes required action plan to improve the capital structure.

Debt-to-equity ratios of the Group are as follows:

| <i>(in thousands of Korean won, except for ratios)</i> | December 31, 2019 | December 31, 2018 |
|--|--------------------------|--------------------------|
| Total liabilities (A) | 874,308,075 | 858,901,127 |
| Total equity (B) | 886,095,316 | 865,247,794 |
| Debt-to-equity ratio (A/B) | 98.7% | 99.3% |

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5. Fair Value

5.1 Fair Value of Financial Instruments by Category

Book amounts and fair values of financial assets by category are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | December 31, 2018 | |
|---|--------------------------|-------------------|--------------------------|-------------------|
| | Book amount | Fair value | Book amount | Fair value |
| Current | | | | |
| Derivative financial assets | 270,372 | 270,372 | 324,396 | 324,396 |
| Non-current | | | | |
| Loans and other receivables | 17,850,278 | 17,850,278 | 10,666,575 | 10,666,575 |
| Financial assets at fair value through profit or loss | 4,095,895 | 4,095,895 | 637,194 | 637,194 |
| Financial assets at fair value through other comprehensive income | 8,212,084 | 8,212,084 | 14,168,719 | 14,168,719 |
| Derivative financial assets | 15,832,589 | 15,832,589 | 15,068,249 | 15,068,249 |
| | <u>46,261,218</u> | <u>46,261,218</u> | <u>40,865,133</u> | <u>40,865,133</u> |

Book amounts and fair values of financial liabilities by category are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | December 31, 2018 | |
|-------------------------------------|--------------------------|--------------------|--------------------------|--------------------|
| | Book amount | Fair value | Book amount | Fair value |
| Non-current | | | | |
| Debentures and long-term borrowings | 290,509,812 | 323,349,787 | 495,745,229 | 537,480,071 |
| Other payables | 1,251,041 | 1,251,041 | 12,163,366 | 12,163,366 |
| Derivative financial liabilities | 7,639,834 | 7,639,834 | 11,520,123 | 11,520,123 |
| | <u>299,400,687</u> | <u>332,240,662</u> | <u>519,428,718</u> | <u>561,163,560</u> |

Short-term financial assets and financial liabilities measured at amortized cost whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

Lease liabilities were excluded from fair value disclosures in accordance with Korean IFRS 1107.

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5.2 Fair Value Hierarchy

Financial instruments measured at fair value or their fair values are disclosed are categorized in the following levels based on the fair value hierarchy.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All of the Group's financial assets and liabilities measured at fair value are recurring fair value measurements. Fair value hierarchy classifications of the financial assets and liabilities that are measured at fair value or its fair value is disclosed as at December 31, 2019 and 2018, are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | | |
|---|--------------------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Derivative financial assets | - | 1,930,213 | 14,172,748 | 16,102,961 |
| Financial assets at fair value through profit or loss | - | - | 4,095,895 | 4,095,895 |
| Financial assets at fair value through other comprehensive income | 6,911,055 | - | 1,301,029 | 8,212,084 |
| Derivative financial liabilities | - | - | 7,639,834 | 7,639,834 |
| Disclosed fair value | | | | |
| Loans and other receivables | - | - | 17,850,278 | 17,850,278 |
| Debentures and borrowings | - | - | 323,349,787 | 323,349,787 |
| Other payables | - | - | 1,251,041 | 1,251,041 |
| | | | | |
| <i>(in thousands of Korean won)</i> | December 31, 2018 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Derivative financial assets | - | 1,024,001 | 14,368,644 | 15,392,645 |
| Financial assets at fair value through profit or loss | - | - | 637,194 | 637,194 |
| Financial assets at fair value through other comprehensive income | 10,346,926 | - | 3,821,793 | 14,168,719 |
| Derivative financial liabilities | - | - | 11,520,123 | 11,520,123 |
| Disclosed fair value | | | | |
| Loans and other receivables | - | - | 10,666,575 | 10,666,575 |
| Debentures and borrowings | - | - | 537,480,071 | 537,480,071 |
| Other payables | - | - | 12,163,366 | 12,163,366 |

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The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period. Changes in level 3 for recurring fair value measurements for the years ended December 31, 2019 and 2018, are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | | |
|---|--|--|------------------------------------|---|
| | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | Derivative financial assets | Derivative financial liabilities |
| Beginning balance | 637,194 | 3,821,793 | 14,368,644 | 11,520,123 |
| Amount recognized in profit or loss | (41,226) | - | (195,896) | (3,880,289) |
| Amount recognized in other comprehensive income | - | 156,538 | - | - |
| Acquisition | 3,499,927 | - | - | - |
| Transfer | - | (2,677,302) | - | - |
| Ending balance | <u>4,095,895</u> | <u>1,301,029</u> | <u>14,172,748</u> | <u>7,639,834</u> |

| <i>(in thousands of Korean won)</i> | December 31, 2018 | | | |
|---|--|--|------------------------------------|---|
| | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | Derivative financial assets | Derivative financial liabilities |
| Beginning balance | 775,001 | 2,978,303 | 12,189,725 | 5,390,632 |
| Amount recognized in profit or loss | 62,193 | - | 2,178,919 | 6,129,491 |
| Amount recognized in other comprehensive income | - | (156,539) | - | - |
| Acquisition | - | 1,000,029 | - | - |
| Disposal | (200,000) | - | - | - |
| Ending balance | <u>637,194</u> | <u>3,821,793</u> | <u>14,368,644</u> | <u>11,520,123</u> |

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5.3 Valuation Technique and the Inputs

The financial instruments whose fair value measurements are categorized within Level 2 and 3 consist of investment in the financial assets such as foreign currency forward contracts and currency swap contracts, and derivative financial instruments such as options.

The fair value of the equity instruments is measured at the value assessed by the Company's own internal valuation model or provided by an independent external valuation experts. When using, discounted cash flow method, the Company establishes its assumptions based on economic condition as at the end of the reporting period.

The fair value of the debt instruments is measured at the present value using the observable market interest rate for the debt instruments with similar risk and maturity. The main observable inputs used for fair value measurements of debt instruments are credit risk adjusted discount rate as at December 31, 2019.

The fair value of derivative financial instruments related to foreign currency forward contracts and currency swap contracts is measured at the present value using the exchange rates and market interest rates at the end of the reporting period.

The fair value of derivative financial instruments related to the option contract is measured by taking into account the ownership interest of the entity in the expected option value calculated based on the binomial model and the normal distribution assumption. The inputs, which were not based on observable market data, used for these fair value measurements are expected future EBITDA multiples and their standard deviation. As at December 31, 2019, the change in fair value of derivative financial instruments, related to the disposal of shares of Halla Stackpole Corporation, was calculated by the change in expected future EBITDA multiples of 7.2 and its standard deviation (assets and liabilities, respectively) of 4.2 and 5.3, which are significant but not unobservable input variables.

The disclosed fair values categorized within Level 2 and 3 are measured at the present value using discount rates such as the weighted-average interest rates of borrowings, internal rate of return of public bonds and others.

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5.4 Valuation Processes for Fair Value Measurements Categorized as Level 3

The financial department of the Group reviews valuation reports prepared by external valuation specialists on a quarterly basis and such reports includes level 3 fair value measurements. The financial department reports the process and results of valuation for fair values to the Chief Financial Officer according to the schedule of quarterly reporting.

5.5 Sensitivity analysis for Recurring Fair Value Measurements Categorized as 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 profit or loss and other comprehensive income (before income tax) from changes in inputs for each financial instrument that categorized as level 3 and subject to sensitivity analysis, are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | December 31, 2018 | |
|---|-------------------|---------------------|-------------------|---------------------|
| | Favorable changes | Unfavorable changes | Favorable changes | Unfavorable changes |
| Derivative financial assets ¹ | 1,543,336 | (1,658,115) | 1,153,201 | (1,196,235) |
| Derivative financial liabilities ¹ | 1,657,407 | (1,750,635) | 1,210,171 | (1,243,607) |

¹ The change in fair value of derivative financial assets was calculated by the change in EBITDA multiples (6.9 to 7.4) and its standard deviation (3.7 to 4.6), and derivative financial liabilities was calculated by the change in EBITDA multiples (6.9 to 7.4) and its standard deviation (4.8 to 5.9).

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6. Financial Instruments by Category

Details of financial assets by category are as follows:

| December 31, 2019 | | | | | | |
|-------------------------------------|------------------------------------|---|---|-----------------------------------|----------------|--------------------|
| <i>(in thousands of Korean won)</i> | Financial assets at amortized cost | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | Derivative financial assets | | Total |
| | | | | Fair value through profit or loss | For hedging | |
| Current | | | | | | |
| Cash and cash equivalents | 113,213,849 | - | - | - | - | 113,213,849 |
| Trade receivables | 115,772,343 | - | - | - | - | 115,772,343 |
| Lease receivables | 1,173,971 | - | - | - | - | 1,173,971 |
| Loans and other receivables | 6,364,724 | - | - | - | - | 6,364,724 |
| Derivative financial assets | - | - | - | 37,867 | 232,505 | 270,372 |
| | <u>236,524,887</u> | - | - | <u>37,867</u> | <u>232,505</u> | <u>236,795,259</u> |
| Non-current | | | | | | |
| Loans and other receivables | 17,850,278 | - | - | - | - | 17,850,278 |
| Financial assets at fair value | - | 4,095,895 | 8,212,084 | - | - | 12,307,979 |
| Derivative financial assets | - | - | - | 15,832,589 | - | 15,832,589 |
| | <u>17,850,278</u> | <u>4,095,895</u> | <u>8,212,084</u> | <u>15,832,589</u> | - | <u>45,990,846</u> |
| | <u>254,375,165</u> | <u>4,095,895</u> | <u>8,212,084</u> | <u>15,870,456</u> | <u>232,505</u> | <u>282,786,105</u> |
| December 31, 2018 | | | | | | |
| <i>(in thousands of Korean won)</i> | Financial assets at amortized cost | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | Derivative financial assets | | Total |
| | | | | Fair value through profit or loss | For hedging | |
| Current | | | | | | |
| Cash and cash equivalents | 85,620,327 | - | - | - | - | 85,620,327 |
| Trade receivables | 160,594,764 | - | - | - | - | 160,594,764 |
| Loans and other receivables | 21,565,774 | - | - | - | - | 21,565,774 |
| Derivative financial assets | - | - | - | - | 324,396 | 324,396 |
| | <u>267,780,865</u> | - | - | - | <u>324,396</u> | <u>268,105,261</u> |
| Non-current | | | | | | |
| Loans and other receivables | 10,666,575 | - | - | - | - | 10,666,575 |
| Financial assets at fair value | - | 637,193 | 14,168,719 | - | - | 14,805,912 |
| Derivative financial assets | - | - | - | 15,068,249 | - | 15,068,249 |
| | <u>10,666,575</u> | <u>637,193</u> | <u>14,168,719</u> | <u>15,068,249</u> | - | <u>40,540,736</u> |
| | <u>278,447,440</u> | <u>637,193</u> | <u>14,168,719</u> | <u>15,068,249</u> | <u>324,396</u> | <u>308,645,997</u> |

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Details of financial liabilities by category are as follows:

| <i>(in thousands of Korean won)</i> | 2018 | | | Total |
|--|--|--------------------------|-------------------------------------|--------------------|
| | Financial liabilities carried at amortized cost | Other liabilities | Derivatives used for hedging | |
| Current | | | | |
| Trade payables | 117,638,997 | - | - | 117,638,997 |
| Other payables | 33,535,047 | - | - | 33,535,047 |
| Short-term borrowings | 41,326,918 | - | - | 41,326,918 |
| Debentures and current portion of long-term borrowings | 275,261,124 | - | - | 275,261,124 |
| Lease liabilities | - | 15,438,759 | - | 15,438,759 |
| | <u>467,762,086</u> | <u>15,438,759</u> | <u>-</u> | <u>483,200,845</u> |
| Non-current | | | | |
| Debentures and long-term borrowings | 290,509,812 | - | - | 290,509,812 |
| Other payables | 1,251,041 | - | - | 1,251,041 |
| Derivative financial liabilities | - | - | 7,639,834 | 7,639,834 |
| Lease liabilities | - | 25,670,072 | - | 25,670,072 |
| | <u>291,760,853</u> | <u>25,670,072</u> | <u>7,639,834</u> | <u>325,070,759</u> |
| | <u>759,522,939</u> | <u>41,108,831</u> | <u>7,639,834</u> | <u>808,271,604</u> |

| <i>(in thousands of Korean won)</i> | December 31, 2018 | | | Total |
|--|--|--|-------------------------------------|--------------------|
| | Financial liabilities carried at amortized cost | | Derivatives used for hedging | |
| Current | | | | |
| Trade payables | 153,995,129 | | - | 153,995,129 |
| Other payables | 26,478,508 | | - | 26,478,508 |
| Short-term borrowings | 53,901,827 | | - | 53,901,827 |
| Current portion of debentures and borrowings | 39,948,111 | | - | 39,948,111 |
| | <u>274,323,575</u> | | <u>-</u> | <u>274,323,575</u> |
| Non-current | | | | |
| Debentures and long-term borrowings | 495,745,229 | | - | 495,745,229 |
| Other payables | 12,163,366 | | - | 12,163,366 |
| Derivative financial liabilities | - | | 11,520,123 | 11,520,123 |
| | <u>507,908,595</u> | | <u>11,520,123</u> | <u>519,428,718</u> |
| | <u>782,232,170</u> | | <u>11,520,123</u> | <u>793,752,293</u> |

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Gains and losses before income tax arising from financial assets and liabilities are as follows:

| | 2019 | | | | | | Total |
|---|------------------------------------|---|---|---|-----------------------------------|----------------|---------------------|
| | Financial assets at amortized cost | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensive income | Financial liabilities carried at amortized cost | Derivative financial instruments | | |
| (in thousands of Korean won) | | | | | Fair value through profit or loss | For hedging | |
| Profit (loss) for the year | | | | | | | |
| Gain on exchange differences | 3,792,635 | - | - | 196,318 | - | - | 3,988,953 |
| Loss on exchange differences | (2,630,512) | - | - | (1,108,500) | - | - | (3,739,012) |
| Interest income | 1,411,689 | - | - | - | - | - | 1,411,689 |
| Interest expense | - | - | - | (25,968,841) | - | - | (25,968,841) |
| Bad debts expense | (218,361) | - | - | - | - | - | (218,361) |
| Loss on valuation of financial assets at fair value | - | (41,226) | - | - | - | - | (41,226) |
| Gain on transaction of derivatives | - | - | - | - | 224,299 | - | 224,299 |
| Gain on valuation of derivatives | - | - | - | - | 4,682,496 | - | 4,682,496 |
| Dividend income | - | - | 260,255 | - | - | - | 260,255 |
| | <u>2,355,451</u> | <u>(41,226)</u> | <u>260,255</u> | <u>(26,881,023)</u> | <u>4,906,795</u> | <u>-</u> | <u>(19,399,748)</u> |
| Other comprehensive income | | | | | | | |
| Gain on valuation of financial assets at fair value | - | - | 2,373,633 | - | - | - | 2,373,633 |
| Cash flow hedge | - | - | - | - | - | 186,856 | 186,856 |
| | <u>-</u> | <u>-</u> | <u>2,373,633</u> | <u>-</u> | <u>-</u> | <u>186,856</u> | <u>2,560,489</u> |
| | <u>2,355,451</u> | <u>(41,226)</u> | <u>2,633,918</u> | <u>(26,881,023)</u> | <u>4,906,795</u> | <u>186,856</u> | <u>(16,839,229)</u> |

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| | 2018 | | | | | | |
|--|--|---|---|---|---|----------------|---------------------|
| | Financial assets at amortized cost | Financial assets at fair value through profit or loss | Financial assets at fair value through other comprehensi -ve income | Financial liabilities carried at amortized cost | Derivative financial instruments | | Total |
| (in thousands of Korean won) | | | | | Fair value through profit or loss | For hedging | |
| Profit (loss) for the year | | | | | | | |
| Gain on exchange differences | 3,870,473 | - | - | 13,430 | - | - | 3,883,903 |
| Loss on exchange differences | (2,359,420) | - | - | (1,008,759) | - | - | (3,368,179) |
| Interest income | 1,386,723 | - | - | - | - | - | 1,386,723 |
| Interest expense | - | - | - | (24,235,100) | - | - | (24,235,100) |
| Gain on valuation of financial assets at fair value | - | 62,192 | - | - | - | - | 62,192 |
| Bad debts expense | (107,131) | - | - | - | - | - | (107,131) |
| Loss on transaction of derivatives | - | - | - | - | (177,614) | - | (177,614) |
| Loss on valuation of derivatives | - | - | - | - | (3,250,967) | - | (3,250,967) |
| Loss on disposal of financial assets at fair value | - | (18,210) | - | - | - | - | (18,210) |
| Dividend income | - | - | 260,255 | - | - | - | 260,255 |
| | <u>2,790,645</u> | <u>43,982</u> | <u>260,255</u> | <u>(25,230,429)</u> | <u>(3,428,581)</u> | <u>-</u> | <u>(25,564,128)</u> |
| Other comprehensive income | | | | | | | |
| Gain on valuation of financial assets at fair value | - | - | 2,373,663 | - | - | - | 2,373,663 |
| Cash flow hedge | - | - | - | - | - | 186,856 | 186,856 |
| | <u>-</u> | <u>-</u> | <u>2,373,663</u> | <u>-</u> | <u>-</u> | <u>186,856</u> | <u>2,560,519</u> |
| | <u>2,790,645</u> | <u>43,982</u> | <u>2,633,918</u> | <u>(25,230,429)</u> | <u>(3,428,581)</u> | <u>186,856</u> | <u>(23,003,609)</u> |

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7. Segment Information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Board of Directors reviews the financial performance by Holding / Distribution and logistics service segment, and others.

The Board of Directors assesses the performance of the operating segments based on operating profit or loss which are measured in a manner consistent with that in the consolidated statements of comprehensive income.

The segment information provided to the Board of Directors for the reportable segments is as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | |
|---|---|----------------------|--------------|
| | Holding / Distribution and logistics service segment | Other segment | Total |
| Sales and share of profit of associates and joint ventures | 786,274,631 | 14,319,793 | 800,594,424 |
| Inter-segment sales | (51,928) | (1,845,100) | (1,897,028) |
| Sales to external customers and profit or loss of associates and joint ventures | 786,222,703 | 12,474,693 | 798,697,396 |
| Operating profit | 72,970,003 | 954,437 | 73,924,440 |
| Depreciation and amortization | 7,316,799 | 2,201,266 | 9,518,065 |

¹ Sales, operating profit, depreciation and amortization of OSPS, OSU are presented as profit (loss) from discontinued operations in the consolidated statements of comprehensive income.

| <i>(in thousands of Korean won)</i> | 2018 | | |
|---|---|----------------------|--------------|
| | Holding / Distribution and logistics service segment | Other segment | Total |
| Sales and share of profit of associates and joint ventures | 905,079,613 | 16,870,014 | 921,949,627 |
| Inter-segment sales | (82,119) | (1,850,000) | (1,932,119) |
| Sales to external customers and profit or loss of associates and joint ventures | 904,997,493 | 15,020,014 | 920,017,507 |
| Operating profit (loss) | 50,682,101 | (3,623,148) | 47,058,953 |
| Depreciation and amortization | 7,498,631 | 2,085,456 | 9,584,087 |

¹ Sales, operating profit (loss), depreciation and amortization of OSPS, OSU and Mecavision Co., Ltd. (formerly, Halla MTIS Co., Ltd.) are classified as profit (loss) from discontinued operations in the consolidated statements of comprehensive income.

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Information about total assets and liabilities for each reportable segment is not disclosed because such information is not regularly provided to the Board of Directors.

Sales between segments are carried out at arm's length. The sales from external customers reported to the Board of Directors are measured in a manner consistent with that in the statement of comprehensive income.

Sales from external customers are derived from the manufacture and sales of automotive components, rendering of services including logistics, and royalty income in exchange the use of the Group's technology.

Sales from external customers attributing to more than 10% of total sales are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | 2018 | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | Sales | Ratio | Sales | Ratio |
| Major customer | 322,620,884 | 40% | 434,365,487 | 49% |

Sales and non-current assets by geographic areas for the years ended December 31, 2019 and 2018, are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | | |
|---|--------------|--------------|---------------|--------------|
| | Korea | China | U.S.A. | Total |
| Sales to external customers ¹ | 608,014,868 | 61,165,400 | 88,636,838 | 757,817,106 |
| Share of profit or loss of associates and joint venture | 40,880,290 | - | - | 40,880,290 |
| Investments in associates and joint venture | 912,604,895 | - | - | 912,604,895 |
| Property, plant and equipment | 251,007,866 | 3,638,844 | 12,028,534 | 266,675,244 |
| Intangible assets | 23,577,978 | 134,439 | 554,913 | 24,267,330 |
| Right-of-use assets | 28,325,093 | 3,275,275 | 9,083,492 | 40,683,860 |
| Investment properties | 142,614,959 | - | - | 142,614,959 |

¹ Sales of OSPS, OSU are presented as profit (loss) from discontinued operations in the consolidated statements of comprehensive income.

| <i>(in thousands of Korean won)</i> | 2018 | | | |
|---|--------------|--------------|---------------|--------------|
| | Korea | China | U.S.A. | Total |
| Sales to external customers ¹ | 674,002,496 | 70,104,076 | 152,335,302 | 896,441,874 |
| Share of profit or loss of associates and joint venture | 23,575,633 | - | - | 23,575,633 |
| Investments in associates and joint venture | 876,021,254 | - | - | 876,021,254 |
| Property, plant and equipment | 252,819,412 | 322,848 | 10,278,755 | 263,421,015 |
| Intangible assets | 28,643,823 | 56,537 | 490,724 | 29,191,084 |
| Investment properties | 142,631,081 | - | - | 142,631,081 |

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¹ Sales of OSPS, OSU and Mecavision Co., Ltd. (formerly, Halla MTIS Co., Ltd.) are presented as profit (loss) from discontinued operations in the consolidated statements of comprehensive income.

8. Financial Assets

8.1 Financial Assets at Fair Value through Profit or Loss

(a) Financial assets at fair value through profit or loss

Equity investments at fair value through profit or loss comprise the following individual investments:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|--|--------------------------|--------------------------|
| Non-current | | |
| Private equity investment trust | 1,940,627 | - |
| Redeemable convertible preference shares | 1,499,929 | - |
| Others | 655,339 | 637,193 |
| | <u>4,095,895</u> | <u>637,193</u> |

(b) Amounts recognized in profit or loss

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|--|-------------|-------------|
| Loss from debt instruments at fair value through profit or loss | - | (18,210) |
| Gain (loss) from equity instruments at fair value through profit or loss | (41,226) | 62,192 |

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8.2 Financial Assets at Fair Value through Other Comprehensive Income

(a) Equity investments at fair value through other comprehensive income

Equity investments at fair value through other comprehensive income comprise the following individual investments:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|--|--------------------------|--------------------------|
| Non-current | | |
| Listed equity securities | | |
| Hyundai Corporation | 4,735,964 | 7,434,670 |
| Hyundai Corporation Holdings Co., Ltd. | 2,175,091 | 2,912,256 |
| Unlisted equity securities | | |
| Wide Corporation ¹ | - | 2,520,763 |
| LeapHigh Inc. | 1,000,029 | 1,000,029 |
| Others | 301,000 | 301,001 |
| | <u>8,212,084</u> | <u>14,168,719</u> |

¹ Wide Corporation was classified as an associate because the Company has significant influence due to the interchange of managerial personnel and other reasons (Note 13).

Upon disposal of these equity investments, any balance within the accumulated other comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

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8.3 Trade Receivables and Other Financial Assets at Amortized Cost

(a) Trade receivables and provision for impairment

Trade receivables and its provisions for impairment as at December 31, 2019 and 2018, are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|-------------------------------------|--------------------------|--------------------------|
| Trade receivables | 116,409,595 | 177,743,365 |
| Loss allowance provision | <u>(637,252)</u> | <u>(17,148,601)</u> |
| Trade receivables - net | <u>115,772,343</u> | <u>160,594,764</u> |

(b) Other financial assets at amortized cost

Other financial assets at amortized cost include the following debt investments:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | | December 31, 2018 | | |
|-------------------------------------|--------------------------|---------------------|---------------------|--------------------------|--------------------|---------------------|
| | Current | Non-current | Total | Current | Non-current | Total |
| Financial deposits | 815,718 | 1,473,553 | 2,289,271 | 13,906,800 | 924,670 | 14,831,470 |
| Non-trade receivables | 3,297,951 | 23,064,753 | 26,362,704 | 6,250,718 | - | 6,250,718 |
| Accrued income | 26,264 | - | 26,264 | 53,707 | - | 53,707 |
| Loans | 12,757,190 | 146,950 | 12,904,140 | 12,781,171 | 236,090 | 13,017,261 |
| Guarantee deposits | <u>1,922,863</u> | <u>10,198,692</u> | <u>12,121,555</u> | <u>1,332,245</u> | <u>9,505,815</u> | <u>10,838,060</u> |
| | <u>18,819,986</u> | <u>34,883,948</u> | <u>53,703,934</u> | <u>34,324,641</u> | <u>10,666,575</u> | <u>44,991,216</u> |
| Loss allowance provision | <u>(12,455,262)</u> | <u>(17,033,670)</u> | <u>(29,488,932)</u> | <u>(12,758,867)</u> | <u>-</u> | <u>(12,758,867)</u> |
| | <u>6,364,724</u> | <u>17,850,278</u> | <u>24,215,002</u> | <u>21,565,774</u> | <u>10,666,575</u> | <u>32,232,349</u> |

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The aging analysis of trade receivables, and loans and other receivables is as follows:

| | | December 31, 2019 | | | | | | | | |
|-------------------------------------|--------------------|---------------------------|------------------|----------------|----------------|-------------------|--------------------|---------------------------------|--------------------|--|
| <i>(in thousands of Korean won)</i> | Within due date | Past due but not impaired | | | | Impaired | Total amount | Allowance for doubtful accounts | Net book amount | |
| | | Up to 3 months | 3 to 6 months | 6 to 12 months | Over 12 months | | | | | |
| Current | | | | | | | | | | |
| Trade receivables | 111,394,616 | 2,882,050 | 1,454,376 | - | 48,456 | 630,097 | 116,409,595 | (637,252) | 115,772,343 | |
| Loans and other receivables | | | | | | | | | | |
| Financial deposits | 815,718 | - | - | - | - | - | 815,718 | - | 815,718 | |
| Non-trade receivables | 3,265,394 | - | - | - | - | 32,557 | 3,297,951 | (32,557) | 3,265,394 | |
| Accrued income | 26,264 | - | - | - | - | - | 26,264 | - | 26,264 | |
| Loans | 334,485 | - | - | - | - | 12,422,705 | 12,757,190 | (12,422,705) | 334,485 | |
| Guarantee deposits | <u>1,922,863</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,922,863</u> | <u>-</u> | <u>1,922,863</u> | |
| | <u>117,759,340</u> | <u>2,882,050</u> | <u>1,454,376</u> | <u>-</u> | <u>48,456</u> | <u>13,085,359</u> | <u>135,229,581</u> | <u>(13,092,514)</u> | <u>122,137,067</u> | |
| Non-current | | | | | | | | | | |
| Loans and other receivables | | | | | | | | | | |
| Non-trade receivables | 1,473,553 | - | - | - | - | - | 1,473,553 | - | 1,473,553 | |
| Financial deposits | 6,031,082 | - | - | - | - | 17,033,671 | 23,064,753 | (17,033,670) | 6,031,083 | |
| Loans | 146,950 | - | - | - | - | - | 146,950 | - | 146,950 | |
| Guarantee deposits | <u>10,198,692</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,198,692</u> | <u>-</u> | <u>10,198,692</u> | |
| | <u>17,850,277</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>17,033,671</u> | <u>34,883,948</u> | <u>(17,033,670)</u> | <u>17,850,278</u> | |
| | <u>135,609,617</u> | <u>2,882,050</u> | <u>1,454,376</u> | <u>-</u> | <u>48,456</u> | <u>30,119,030</u> | <u>170,113,529</u> | <u>(30,126,184)</u> | <u>139,987,345</u> | |

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| December 31, 2018 | | | | | | | | | |
|-------------------------------------|--------------------|---------------------------|----------------|------------------|------------------|-------------------|--------------------|---------------------------------|--------------------|
| <i>(in thousands of Korean won)</i> | Within due date | Past due but not impaired | | | | Impaired | Total amount | Allowance for doubtful accounts | Net book amount |
| | | Up to 3 months | 3 to 6 months | 6 to 12 months | Over 12 months | | | | |
| Current | | | | | | | | | |
| Trade receivables | 145,301,030 | 9,100,242 | 463,703 | 2,928,669 | 2,801,120 | 17,148,601 | 177,743,365 | (17,148,601) | 160,594,764 |
| Loans and other receivables | | | | | | | | | |
| Financial deposits | 13,906,800 | - | - | - | - | - | 13,906,800 | - | 13,906,800 |
| Non-trade receivables | 3,433,222 | - | - | - | 2,481,334 | 336,162 | 6,250,718 | (336,162) | 5,914,556 |
| Accrued income | 53,707 | - | - | - | - | - | 53,707 | - | 53,707 |
| Loans | 358,466 | - | - | - | - | 12,422,705 | 12,781,171 | (12,422,705) | 358,466 |
| Guarantee deposits | 1,332,245 | - | - | - | - | - | 1,332,245 | - | 1,332,245 |
| | <u>164,385,470</u> | <u>9,100,242</u> | <u>463,703</u> | <u>2,928,669</u> | <u>5,282,454</u> | <u>29,907,468</u> | <u>212,068,006</u> | <u>(29,907,468)</u> | <u>182,160,538</u> |
| Non-current | | | | | | | | | |
| Loans and other receivables | | | | | | | | | |
| Financial deposits | 924,670 | - | - | - | - | - | 924,670 | - | 924,670 |
| Loans | 236,090 | - | - | - | - | - | 236,090 | - | 236,090 |
| Guarantee deposits | 9,505,815 | - | - | - | - | - | 9,505,815 | - | 9,505,815 |
| | <u>10,666,575</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,666,575</u> | <u>-</u> | <u>10,666,575</u> |
| | <u>175,052,045</u> | <u>9,100,242</u> | <u>463,703</u> | <u>2,928,669</u> | <u>5,282,454</u> | <u>29,907,468</u> | <u>222,734,581</u> | <u>(29,907,468)</u> | <u>192,827,113</u> |

Certain receivables and allowance for doubtful accounts have been reclassified from trade receivables to non-trade receivables as the Group considers that is more appropriate to classify non-trade receivables according to the agreement for the lawsuit(Note 32).

The Group applies the simplified approach to measure the allowance for doubtful accounts at an amount equal to lifetime expected credit losses for trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses below also include forward looking information. All of the loans and other receivables at amortized cost are considered to have low credit risk. Other receivables at amortized cost are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

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The bad debts expense of receivables is included in 'selling and administrative expenses' in the statement of comprehensive income. Changes in allowances for doubtful receivables are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | | 2018 | | |
|--|---------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | Trade receivables | Loans and other receivables | Total | Trade receivables | Loans and other receivables | Total |
| At January 1 | 17,648,600 | 12,258,867 | 29,907,467 | 18,681,491 | 12,306,167 | 30,987,658 |
| Provision for receivables impairment | 287,880 | - | 287,880 | 107,131 | - | 107,131 |
| Collections of receivables impairment | (69,519) | - | (69,519) | (60,000) | (47,300) | (107,300) |
| Receivables written off during the year as uncollectible | (791) | - | (791) | (1,613,275) | - | (1,613,275) |
| Exchange differences | 1,148 | - | 1,148 | 533,253 | - | 533,253 |
| | <u>(17,230,066)</u> | <u>17,230,066</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| At December 31 | <u>637,252</u> | <u>29,488,933</u> | <u>30,126,184</u> | <u>17,648,600</u> | <u>12,258,867</u> | <u>29,907,467</u> |

The maximum exposure to credit risk at the end of reporting period is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security regarding trade receivables, and loans and other receivables.

As at December 31, 2019, trade receivables from major customers comprise approximately 23% (2018: 33%) of trade receivables neither past due nor impaired and their external credit ratings are AA- Stable (rated by Korea Investors Service) and above. Other trade receivables are spread to various customers; therefore, the credit risk is not concentrated on a specific customer or a customer group.

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9. Contract Assets and Liabilities

The Group has recognized the following revenue-related contract assets and liabilities:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | January 1, 2019 |
|---|--------------------------|------------------------|
| Other assets - IT revenue | 40,003 | 105,736 |
| Total contract assets | <u>40,003</u> | <u>105,736</u> |
| Other liabilities – variable consideration | 110,240 | 111,443 |
| Other liabilities – transportation services | 3,545 | 13,490 |
| Other liabilities – complex transportation services | 1,531,685 | 1,029,410 |
| Other liabilities – IT revenue | 356,774 | 1,031,183 |
| Other liabilities – sales of GolfTel | <u>2,867,448</u> | <u>2,942,197</u> |
| Total contract liabilities | <u>4,869,692</u> | <u>5,127,723</u> |

(b) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the current reporting period relates to carried-forward contract liabilities.

| <i>(in thousands of Korean won)</i> | December 31, 2019 |
|---|--------------------------|
| Revenue recognized that was included in the contract liability balance at the beginning of the year | |
| Variable consideration | 111,443 |
| Transportation services | 13,490 |
| Complex transportation services | 1,029,410 |
| IT revenue | 1,031,183 |
| Sales of GolfTel | 74,749 |

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10. Restricted Financial Deposits

Details of restricted financial deposits are as follows:

(in thousands of Korean won)

| Accounts | Financial institutions | December 31, 2019 | December 31, 2018 | Remarks |
|-------------|-------------------------------|-------------------|-------------------|--|
| Current | | | | |
| | Woori Bank | 810,605 | 810,092 | Pledged for borrowings and overdraft account deposit |
| Non-current | | | | |
| | R.J O'Briean & Associates LLC | - | 1 | Deposits for futures trading |
| | Jeju Bank | 800,000 | 800,000 | Collateral provided to Seoul Guarantee Insurance Company |
| | Woori Bank and others | 6,000 | 6,000 | Key money deposits |
| | QNB FINANSBANK | 292,005 | - | Secured deposits |
| | | <u>1,908,610</u> | <u>1,616,093</u> | |

11. Inventories

Details of inventories are as follows:

| (in thousands of Korean won) | December 31, 2019 | | | | | | |
|------------------------------|-------------------|-----------------|-----------------|------------------|----------------|----------------------|-------------------|
| | Merchandise | Finished goods | Work-in-process | Raw materials | Stored goods | Inventory-in-transit | Total |
| Cost | 71,999,411 | 594,469 | 766,563 | 4,840,523 | 106,125 | 3,641,878 | 81,948,969 |
| Valuation allowance | <u>(747,437)</u> | <u>(30,067)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(777,504)</u> |
| Net book amount | <u>71,251,974</u> | <u>564,402</u> | <u>766,563</u> | <u>4,840,523</u> | <u>106,125</u> | <u>3,641,878</u> | <u>81,171,465</u> |
| (in thousands of Korean won) | December 31, 2018 | | | | | | |
| | Merchandise | Finished goods | Work-in-process | Raw materials | Stored goods | Inventory-in-transit | Total |
| Cost | 66,807,193 | 635,453 | 526,817 | 3,796,031 | 93,290 | 6,793,639 | 78,652,423 |
| Valuation allowance | <u>(431,973)</u> | <u>(25,919)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(457,892)</u> |
| Net book amount | <u>66,375,220</u> | <u>609,534</u> | <u>526,817</u> | <u>3,796,031</u> | <u>93,290</u> | <u>6,793,639</u> | <u>78,194,531</u> |

The cost of inventories recognized as expense and included in 'cost of sales' amounts to ₩ 458,203,213 thousand (2018: ₩ 568,816,279 thousand).

The valuation losses of inventories included in 'cost of sales' amounts to ₩ 319,612 thousand (2018: ₩ 19,211 thousand).

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12. Derivative Financial Instruments

Currency forward exchange and currency swap contracts outstanding as at December 31, 2019, are as follows:

| Contracting parties ¹ | Position | Transaction amount (in thousands) | | | | Contractual exchange rates | Maturities |
|----------------------------------|----------|-----------------------------------|--------|--------|------------|----------------------------|--|
| | | Selling | | Buying | | | |
| Cash flow hedges | | | | | | | |
| Shinhan Bank | Selling | USD | 11,700 | KRW | 13,703,119 | 1142.3~ 1195.70 | January 31, 2020~ September 29, 2020 |
| Kookmin Bank | Selling | USD | 700 | KRW | 838,320 | 1197.60 | July 31, 2020 |

¹ As at December 31, 2019, the Group has entered into an agreement in relation to derivative transactions with Kookmin Bank and Shinhan Bank with a limit of USD 60,000 thousand and USD 5,000 thousand, respectively.

In relation to cash flow hedges, a hedged highly probable forecasted transaction is expected to occur at various dates within the next 9 months, and there is no forecasted transaction for which hedge accounting had previously been used, but which is no longer expected to occur.

The gain on valuation that was recognized in other comprehensive income is ₩ 2,693,864 thousand (2018: ₩ 921,579 thousand). The loss on valuation that was reclassified from other comprehensive income to profit or loss is recognized in 'revenue' amounting to ₩ 2,785,755 thousand (2018: ₩ 734,723 thousand).

Currency swap contracts outstanding as at December 31, 2019, are as follows:

| Contracting parties | Principal | | | | Interest | | Maturities |
|------------------------------|----------------|------------|----------------|--------|---------------------|----------------------|----------------|
| | Payment | | Receipt | | Payment | Receipt | |
| Fair value at profit or loss | (in thousands) | | (in thousands) | | (KRW) | (USD) | |
| Kookmin Bank | KRW | 23,485,000 | USD | 22,000 | Fixed rate of 3.48% | Libor (3M) +1.55% | March 26, 2021 |

The Group has entered into currency swap contracts in order to hedge the risk of interest rate and foreign exchange rate related to foreign currency borrowings. As at December 31, 2019, unsettled borrowings related to currency swap contracts amount to US\$ 22,000 thousand. In 2019, gains on valuation of derivative instruments recognized in other income related to currency swap contracts are ₩ 998,103 thousand.

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The fair value measurements of derivative financial instruments are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | December 31, 2018 | |
|-------------------------------------|--------------------------|--------------------|--------------------------|--------------------|
| | Assets | Liabilities | Assets | Liabilities |
| Current | | | | |
| Cash flow hedges | 232,505 | - | 324,396 | - |
| Fair value at profit or loss | 37,867 | - | - | - |
| Non-current | | | | |
| Fair value at profit or loss | 1,659,841 | - | 699,606 | - |

In 2017, the Group has entered into option contract for residual shares with holders related to disposition of shares of Halla Stackpole Corporation and details of the contract are as follows (Note 13):

| | Put option | Call option |
|------------------------------|---|---|
| Period | 4 years after 5 years from date of disposition | 4 years after expiration of exercise period of put option |
| Exercise amount ¹ | Percentage of ownership*(EBITDA*8.5-Net Debt) | Percentage of ownership*(EBITDA*8.5-Net Debt) |
| Option holder | Halla Holdings Corporation | Stackpole ² |
| Others | Shareholders may not transfer their shares to third parties for 5 years after the date of disposition. If one shareholder wants to sell its shares to third parties during the period above mentioned, the other shareholder has the right of first refusal. If Stackpole no longer is the largest shareholder by selling its stake to any third party, the Company may have the tag along right. If Stackpole sells all of its stake to any third party, Stackpole may have the drag along right. | |

¹ Based on the amounts in consolidated financial statements of prior year of exercise date.

² Collectively calling Stackpole Investment Limited, which holds shares of Halla Stackpole Corporation and Johnson Electric International (UK) Limited, which is the entity directly involved in share disposal.

The fair value measurements of above derivative financial instruments are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | December 31, 2018 | |
|-------------------------------------|--------------------------|--------------------|--------------------------|--------------------|
| | Assets | Liabilities | Assets | Liabilities |
| Non-current | | | | |
| Fair value at profit or loss | 14,172,748 | 7,639,834 | 14,368,644 | 11,520,123 |

In 2019, gain on valuation of derivatives amounting to ₩ 3,880,289 thousand and loss on valuation of derivatives amounting to ₩ 195,896 thousand recognized in profit or loss was recognized in other income and other expenses, respectively.

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13. Investments in Associates and Joint Venture

Details of associates and joint venture over which the Group has significant influence are as follows:

| Investee | Abbreviation * | Location | Percentage of ownership (%) | | Closing month |
|--------------------------------|----------------|----------|-----------------------------|-------|---------------|
| | | | 2019 | 2018 | |
| Associates | | | | | |
| Mando Corporation | MANDO | Korea | 30.25 | 30.25 | December |
| Halla Corporation ¹ | HL | Korea | 15.85 | 15.85 | December |
| Halla Stackpole Corporation | HSC | Korea | 20.00 | 20.00 | March |
| JD Tech Corp. | JDT | Korea | 35.09 | 35.09 | December |
| AMT Engineering Co., Ltd. | AMT | Korea | 22.22 | 22.22 | December |
| WIDE CORPORATION ² | WD | Korea | 19.24 | - | December |
| Joint venture | | | | | |
| Mando-Hella Electronics Corp. | MHE | Korea | 50.00 | 50.00 | December |

* Abbreviations are used hereinafter.

¹ The Company has 15.85% ownership in ordinary shares and 100% ownership in preferred shares. However, the Group used 6.94% and 57.33% for the application of equity method to ordinary shares and preferred shares, respectively, considering the conversion ratio of the preferred shares to ordinary shares and treasury shares that HL holds.

² WIDE CORPORATION was classified as an associate because the Company has significant influence due to the interchange of managerial personnel and other reasons (Note 8).

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Changes in investments in associates and joint venture are as follows:

| 2019 | | | | | | | | | | |
|-------------------------------------|--------------------|--|---|---------------------|------------------------|-------------------------------------|-------------------------|---------------------------------------|----------------------------------|--------------------|
| <i>(in thousands of Korean won)</i> | At January 1 | Effect of changes in accounting policy | Reclassification of financial assets at fair value through other comprehensive income | Dividends received | Share of profit (loss) | Share of other comprehensive income | Share of remeasurements | Share of changes in retained earnings | At December 31 | |
| Investee | | | | | | | | | | |
| MANDO | 590,093,038 | - | - | (7,101,625) | 21,553,504 | 6,854,192 | (1,934,718) | - | 609,464,391 | |
| MHE | 74,201,321 | - | - | (6,000,240) | 11,183,512 | 310,367 | (605,543) | - | 79,089,417 | |
| HL (Ordinary shares) | 17,047,129 | 74,914 | - | - | (561,098) | (133,800) | 105,400 | 174,916 | 16,707,461 | |
| HL (Preferred shares) | 145,354,603 | 618,555 | - | - | 5,626,103 | (1,104,767) | 870,267 | 1,444,259 | 152,809,020 | |
| HSC | 46,573,613 | - | - | (604,800) | 2,759,440 | 199,780 | 87,469 | - | 49,015,502 | |
| JDT | 2,208,997 | - | - | (228,576) | 186,801 | - | - | - | 2,167,222 | |
| AMT | 542,552 | - | - | - | (11,677) | - | - | - | 530,875 | |
| WD | - | - | 2,677,302 | - | 143,705 | - | - | - | 2,821,007 | |
| | <u>876,021,253</u> | <u>693,469</u> | <u>2,677,302</u> | <u>(13,935,241)</u> | <u>40,880,290</u> | <u>6,125,772</u> | <u>(1,477,125)</u> | <u>1,619,175</u> | <u>912,604,895</u> | |
| 2018 | | | | | | | | | | |
| <i>(in thousands of Korean won)</i> | At January 1 | Effect of changes in accounting policy | Disposal | Dividends received | Share of profit (loss) | Share of other comprehensive income | Share of remeasurements | Share of changes in retained earnings | Share of changes in other equity | At December 31 |
| Investee | | | | | | | | | | |
| MANDO | 581,660,298 | (972,079) | - | (2,840,650) | 18,042,288 | (3,456,749) | (2,340,070) | - | - | 590,093,038 |
| MHE | 69,018,935 | - | - | (6,000,240) | 11,805,567 | (237,056) | (385,885) | - | - | 74,201,321 |
| HL (Ordinary shares) | 25,658,285 | (5,711,041) | 350,349 | (616,121) | (2,091,523) | 56,673 | (483,144) | (113,383) | (2,966) | 17,047,129 |
| HL (Preferred shares) | 236,897,395 | (47,155,160) | 2,415,171 | (35,470,935) | (7,327,496) | 945,542 | (3,989,239) | (936,187) | (24,488) | 145,354,603 |
| HSC | 43,684,887 | - | - | - | 2,961,307 | (87,290) | 14,709 | - | - | 46,573,613 |
| JDT | 2,223,765 | - | - | (240,000) | 225,232 | - | - | - | - | 2,208,997 |
| AMT | 582,295 | - | - | - | (39,743) | - | - | - | - | 542,552 |
| | <u>959,725,860</u> | <u>(53,838,280)</u> | <u>2,765,520</u> | <u>(45,167,946)</u> | <u>23,575,632</u> | <u>(2,778,880)</u> | <u>(7,183,629)</u> | <u>(1,049,570)</u> | <u>(27,454)</u> | <u>876,021,253</u> |

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Summarized financial information of associates and joint venture are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | | | | | | |
|-------------------------------------|---------------|----------------|--------------------|---------------------|-------------------------|-------------|---------------------|----------------------------|
| | Investee | Current assets | Non-current assets | Current liabilities | Non-current liabilities | Sales | Profit for the year | Other comprehensive income |
| MANDO | 2,108,356,197 | 2,485,811,014 | 1,755,541,963 | 1,253,160,986 | 5,981,877,182 | 118,088,377 | 17,260,146 | 135,348,523 |
| MHE | 243,838,688 | 213,488,804 | 219,048,228 | 80,100,430 | 651,161,866 | 22,607,156 | (595,978) | 22,011,178 |
| HL | 687,145,104 | 901,041,938 | 986,139,403 | 340,977,695 | 1,304,889,862 | 2,723,763 | 2,169,280 | 4,893,043 |
| HSC | 119,396,748 | 85,543,821 | 24,511,682 | 17,728,510 | 178,493,304 | 16,369,165 | 1,416,107 | 17,785,272 |
| JDT | 6,002,288 | 22,894,821 | 13,078,271 | 9,496,758 | 18,784,332 | 304,016 | - | 304,016 |
| AMT | 1,466,459 | 721,940 | 375,438 | 226,443 | 2,636,866 | 19,735 | - | 19,735 |
| WD | 12,338,099 | 3,184,488 | 225,002 | 637,921 | 16,244,187 | 2,237,259 | - | 2,237,259 |

| <i>(in thousands of Korean won)</i> | 2018 | | | | | | | |
|-------------------------------------|---------------|----------------|--------------------|---------------------|-------------------------|--------------|----------------------------|----------------------------|
| | Investee | Current assets | Non-current assets | Current liabilities | Non-current liabilities | Sales | Profit (loss) for the year | Other comprehensive income |
| MANDO | 1,972,735,305 | 2,462,472,091 | 1,833,719,893 | 1,119,718,693 | 5,664,832,721 | 112,927,633 | (20,280,378) | 92,647,255 |
| MHE | 232,145,815 | 207,219,575 | 195,347,835 | 95,614,913 | 573,742,879 | 23,053,421 | (1,108,808) | 21,944,612 |
| HL | 1,029,200,393 | 764,553,067 | 1,271,614,021 | 256,478,975 | 1,320,997,313 | (12,072,114) | (7,898,963) | (19,971,077) |
| HSC | 105,589,235 | 86,834,442 | 30,829,925 | 13,654,647 | 185,427,284 | 17,378,501 | (353,046) | 17,025,455 |
| JDT | 5,301,398 | 21,729,613 | 4,365,070 | 16,369,941 | 15,627,829 | 253,372 | - | 253,372 |
| AMT | 1,439,340 | 791,607 | 287,313 | 304,566 | 1,910,263 | (72,860) | - | (72,860) |

As at December 31, 2019, the Group applied the equity method based on the recently audited financial statements or unaudited financial statements of joint venture and associates.

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Details of adjustments from financial information of associates and joint ventures to the book amount of investments in associates and joint ventures are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | | | | | |
|-------------------------------------|---------------|------------------------------------|-----------------------------|-------------------------|---------------------|-----------------|---------------------|
| | Investee | Net assets of controlling interest | Percentage of ownership (%) | Interests in net assets | Goodwill and others | Unrealized gain | Others ³ |
| MANDO ¹ | 1,317,435,852 | 30.33 | 399,615,903 | 211,468,355 | (1,619,868) | - | 609,464,390 |
| MHE | 158,178,834 | 50.00 | 79,089,417 | - | - | - | 79,089,417 |
| HL (Ordinary shares) ² | 261,050,786 | 6.94 | 18,126,626 | 558,935 | (663,689) | (1,314,411) | 16,707,461 |
| HL (Preferred shares) ² | 261,050,786 | 57.33 | 149,668,622 | - | (5,479,972) | 8,620,370 | 152,809,020 |
| HSC | 166,073,176 | 20.00 | 33,214,635 | 15,800,867 | - | - | 49,015,502 |
| JDT | 6,322,081 | 35.09 | 2,218,276 | - | - | (51,054) | 2,167,222 |
| AMT | 1,586,518 | 22.22 | 352,560 | 178,315 | - | - | 530,875 |
| WD | 14,659,664 | 19.24 | 2,821,007 | - | - | - | 2,821,007 |

| <i>(in thousands of Korean won)</i> | 2018 | | | | | | |
|-------------------------------------|---------------|------------------------------------|-----------------------------|-------------------------|---------------------|-----------------|---------------------|
| | Investee | Net assets of controlling interest | Percentage of ownership (%) | Interests in net assets | Goodwill and others | Unrealized gain | Others ³ |
| MANDO ¹ | 1,221,686,649 | 30.33 | 370,572,435 | 221,108,538 | (1,587,935) | - | 590,093,038 |
| MHE | 148,402,642 | 50.00 | 74,201,321 | - | - | - | 74,201,321 |
| HL (Ordinary shares) ² | 255,361,810 | 6.94 | 17,731,600 | 651,739 | (680,947) | (655,263) | 17,047,129 |
| HL (Preferred shares) ² | 255,361,810 | 57.33 | 146,406,952 | - | (5,622,469) | 4,570,120 | 145,354,603 |
| HSC | 151,291,773 | 20.00 | 30,258,355 | 16,315,258 | - | - | 46,573,613 |
| JDT | 6,314,325 | 35.09 | 2,215,555 | - | - | (6,558) | 2,208,997 |
| AMT | 1,639,067 | 22.22 | 364,237 | 178,315 | - | - | 542,552 |

¹ As at December 31, 2019 and 2018, the nominal percentage of ownership is 30.25% and the effective percentage of ownership considering the treasury shares is 30.33%.

² The Company has 15.85% ownership in ordinary shares and 100% ownership in preferred shares. Considering the conversion ratio of preferred shares and treasury shares that HL holds, ownership applied to equity method is 6.94% to ordinary shares and 57.33% to preferred shares.

³ Others represents the effects of preferred dividend amounts on preferred shares which have priority rights of distributions.

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Fair value of marketable investments in associates are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | December 31, 2018 | |
|-------------------------------------|--------------------------|--------------------|--------------------------|--------------------|
| | Fair value | Book amount | Fair value | Book amount |
| MANDO ¹ | 499,954,400 | 609,464,390 | 411,184,088 | 590,093,039 |
| HL (Ordinary shares) | 18,483,624 | 16,707,461 | 26,554,806 | 17,047,129 |

¹ As described in Note 2, the Group performs an impairment test on the investment in associates which has an indication that they it may be impaired. The recoverable amounts are determined based on the value in use which are calculated based on the cash flows before tax expected from the continuous use of the assets.

The key assumptions applied in value-in-use calculations for the year ended December 31, 2019, are as follows:

| <i>(in thousands of Korean won)</i> | Terminal growth rate | Discount rate |
|-------------------------------------|-----------------------------|----------------------|
| MANDO | 1% | 9.4% |

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14. Property, Plant and Equipment

Changes in property, plant and equipment are as follows:

| | 2019 | | | |
|--|-------------------|---------------------------------------|-------------------|----------------|
| <i>(in thousands of Korean won)</i> | Land ¹ | Buildings and structures ¹ | Machinery | Tools |
| At January 1, 2019 | 97,118,022 | 56,909,181 | 8,511,055 | 305,364 |
| Acquisition | 138,114 | 43,965 | 1,305,724 | 198,501 |
| Disposal/ Retirement | - | (856) | (23,778) | (1,079) |
| Depreciation | - | (3,140,134) | (1,977,399) | (144,578) |
| Transfer | 103,100 | 29,494,462 | 3,406,783 | 30,500 |
| Exchange differences | 51,113 | 43,323 | 169,189 | 108 |
| At December 31, 2019 | <u>97,410,349</u> | <u>83,349,941</u> | <u>11,391,574</u> | <u>388,816</u> |
| Acquisition cost | 97,410,349 | 115,607,329 | 22,686,983 | 2,151,364 |
| Accumulated depreciation and impairment loss | - | (32,257,388) | (11,295,409) | (1,762,548) |

| | 2019 | | | |
|--|----------------------------------|-------------------|---|--------------------|
| <i>(in thousands of Korean won)</i> | Furniture & fixture and vehicles | Course & tree | Materials in transit and construction-in-progress | Total |
| At January 1, 2019 | 3,526,646 | 56,108,825 | 39,924,102 | 262,403,195 |
| Acquisition | 1,770,266 | - | 7,982,263 | 11,438,833 |
| Disposal/ Retirement | (98,175) | - | (47,300) | (171,188) |
| Depreciation | (1,890,167) | - | - | (7,152,278) |
| Transfer | 1,657,897 | - | (34,790,383) | (97,641) |
| Exchange differences | 2,238 | - | (11,648) | 254,323 |
| At December 31, 2019 | <u>4,968,705</u> | <u>56,108,825</u> | <u>13,057,034</u> | <u>266,675,244</u> |
| Acquisition cost | 21,912,427 | 56,108,825 | 13,057,034 | 328,934,311 |
| Accumulated depreciation and impairment loss | (16,943,722) | - | - | (62,259,067) |

¹As at December 31, 2019, Property, Plant and Equipment and Investment properties of JJH are pledged a joint collateral security with the maximum amount ₩ 1,000,000 thousand for acquisition financing loan(Notes 16, 21, 32).

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| | 2018 | | | |
|--|-------------------|---------------------------------|------------------|----------------|
| <i>(in thousands of Korean won)</i> | Land | Buildings and structures | Machinery | Tools |
| At January 1, 2018 | 101,179,094 | 60,531,594 | 8,296,822 | 729,743 |
| Acquisition | 13,993,061 | 655,775 | 1,381,054 | 365,260 |
| Disposal/ Retirement | (24,590,262) | (10,256,136) | (73,684) | (627) |
| Depreciation | - | (2,680,927) | (1,479,591) | (259,986) |
| Transfer | 6,476,002 | 8,620,053 | 172,700 | - |
| Exchange differences | 60,127 | 72,772 | 213,754 | 179 |
| Changes in consolidation scope | - | - | - | (529,205) |
| Transfer to non-current assets held for sale | - | (33,950) | - | - |
| At December 31, 2018 | <u>97,118,022</u> | <u>56,909,181</u> | <u>8,511,055</u> | <u>305,364</u> |
| Acquisition cost | 97,118,022 | 85,969,071 | 18,062,711 | 1,998,554 |
| Accumulated depreciation and impairment loss | - | (29,059,890) | (9,551,656) | (1,693,190) |

| | 2018 | | | |
|--|---|--------------------------|--|--------------------|
| <i>(in thousands of Korean won)</i> | Furniture & fixture and vehicles | Course & tree | Materials in transit and construction-in-progress | Total |
| At January 1, 2018 | 5,252,791 | 56,108,825 | 21,330,738 | 253,429,607 |
| Acquisition | 1,909,575 | - | 20,274,880 | 38,579,605 |
| Disposal/ Retirement | (266,963) | - | - | (35,187,672) |
| Depreciation | (2,444,425) | - | - | (6,864,929) |
| Transfer | 16,302 | - | (1,697,514) | 13,587,543 |
| Exchange differences | 43,235 | - | 15,998 | 406,065 |
| Changes in consolidation scope | - | - | - | (529,205) |
| Transfer to non-current assets held for sale | (983,869) | - | - | (1,017,819) |
| At December 31, 2018 | <u>3,526,646</u> | <u>56,108,825</u> | <u>39,924,102</u> | <u>262,403,195</u> |
| Acquisition cost | 20,746,390 | 56,108,825 | 39,924,102 | 319,927,675 |
| Accumulated depreciation and impairment loss | (17,219,744) | - | - | (57,524,480) |

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Line items including depreciation in the statements of comprehensive income are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|--|------------------|------------------|
| Cost of sales ¹ | 5,142,078 | 4,984,141 |
| Selling and administrative expenses ¹ | <u>2,010,200</u> | <u>1,880,788</u> |
| | <u>7,152,278</u> | <u>6,864,929</u> |

¹ Depreciation expenses of OSPS, OSU and Mecavision Co., Ltd. (formerly, Halla MTIS Co., Ltd.) are classified as profit from discontinued operations in the consolidated statements of comprehensive income.

During the year, there were no borrowing costs capitalized on property, plant and equipment that are qualifying assets. (2018: ₩ 312,471 thousand).

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15. Intangible Assets

Changes in intangible assets are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | |
|--|-------------------|------------------------------|------------------|
| | Goodwill | Customer relationship | Software |
| At January 1, 2019 | 13,467,566 | 6,801,347 | 2,943,255 |
| Acquisition | - | - | 617,393 |
| Amortization | - | (577,949) | (1,161,953) |
| Disposal | - | - | (794) |
| Transfer | - | - | 496,306 |
| Exchange differences | - | - | 11,909 |
| At December 31, 2019 | <u>13,467,566</u> | <u>6,223,398</u> | <u>2,906,116</u> |
| Acquisition cost | 13,467,566 | 8,480,000 | 8,986,662 |
| Accumulated amortization and impairment loss | - | (2,256,602) | (6,080,546) |

| <i>(in thousands of Korean won)</i> | 2019 | | |
|--|-------------------|--------------------------------|-------------------|
| | Membership | Other intangible assets | Total |
| At January 1, 2019 | 4,684,657 | 1,294,260 | 29,191,085 |
| Acquisition | - | 654,900 | 1,272,293 |
| Amortization | - | (609,762) | (2,349,664) |
| Disposal | (3,955,140) | - | (3,955,934) |
| Transfer | - | (398,665) | 97,641 |
| Exchange differences | - | - | 11,909 |
| At December 31, 2019 | <u>729,517</u> | <u>940,733</u> | <u>24,267,330</u> |
| Acquisition cost | 1,699,064 | 3,908,876 | 36,542,168 |
| Accumulated amortization and impairment loss | (969,547) | (2,968,143) | (12,274,838) |

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| <i>(in thousands of Korean won)</i> | 2018 | | |
|--|-------------------|------------------------------|------------------|
| | Goodwill | Customer relationship | Software |
| At January 1, 2018 | 13,467,566 | 7,379,296 | 3,514,167 |
| Acquisition | - | - | 404,081 |
| Amortization | - | (577,949) | (1,204,952) |
| Impairment loss | - | - | - |
| Transfer | - | - | 209,140 |
| Exchange differences | - | - | 20,819 |
| At December 31, 2018 | <u>13,467,566</u> | <u>6,801,347</u> | <u>2,943,255</u> |
| Acquisition cost | 13,467,566 | 8,480,000 | 8,863,264 |
| Accumulated amortization and impairment loss | - | (1,678,653) | (5,920,009) |

| <i>(in thousands of Korean won)</i> | 2018 | | |
|--|-------------------|--------------------------------|-------------------|
| | Membership | Other intangible assets | Total |
| At January 1, 2018 | 4,684,657 | 4,348,983 | 33,394,669 |
| Acquisition | - | 42,284 | 446,365 |
| Amortization | - | (903,704) | (2,686,605) |
| Impairment loss | - | (2,258,465) | (2,258,465) |
| Transfer | - | - | 209,140 |
| Exchange differences | - | 65,162 | 85,981 |
| At December 31, 2018 | <u>4,684,657</u> | <u>1,294,260</u> | <u>29,191,085</u> |
| Acquisition cost | 5,654,204 | 12,268,475 | 48,733,509 |
| Accumulated amortization and impairment loss | (969,547) | (10,974,215) | (19,542,424) |

Line items including amortization in the statements of comprehensive income are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|--|------------------|------------------|
| Cost of sales ¹ | 576,946 | 495,528 |
| Selling and administrative expenses ¹ | <u>1,772,718</u> | <u>2,191,077</u> |
| | <u>2,349,664</u> | <u>2,686,605</u> |

¹ Depreciation of OSPS and OSU are presented as profit from discontinued operations in the consolidated statements of comprehensive income.

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The Group annually performs an impairment test for goodwill. Goodwill is allocated to each cash-generating unit where the Group's management monitors as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|-------------------------------------|-------------|-------------|
| IT business | 12,242,313 | 12,242,313 |
| Insurance business | 1,225,253 | 1,225,253 |

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on business plan approved by management covering a five-year period. The sales growth rate used for the period is determined based on historical performance and prediction of the market growth. The cash flow over five years is only estimated in the maximum range of long-term average growth rate in the industry where the cash-generating units are affiliated to. Also, the rate used in value-in-use calculation is rate which reflects particular risk of the cash-generating unit.

The key assumptions applied in value-in-use calculations for the year ended December 31, 2019, are as follows:

| <i>(in thousands of Korean won)</i> | Terminal growth rate | Discount rate |
|-------------------------------------|-----------------------------|----------------------|
| IT business | 1.00% | 10.40% |

As a result of impairment test on goodwill, the Company did not recognize impairment loss as the recoverable amount of cash-generating units exceeds the carrying amount.

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16. Investment Properties

Changes in investment properties are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | |
|-------------------------------------|-------------------------|------------------------------|--------------------|
| | Land¹ | Buildings¹ | Total |
| At January 1, 2019 | 142,115,165 | 515,916 | 142,631,081 |
| Transfer | - | - | - |
| Depreciation | - | (16,122) | (16,122) |
| At December 31, 2019 | <u>142,115,165</u> | <u>499,794</u> | <u>142,614,959</u> |
| Acquisition cost | 142,115,165 | 644,827 | 142,759,992 |
| Accumulated depreciation | - | (145,034) | (145,034) |

¹As at December 31, 2019, Property, Plant and Equipment and Investment properties of JJH are pledged a joint collateral security with the maximum amount ₩ 1,000,000 thousand for acquisition financing loan (Notes 14, 21, 32).

| <i>(in thousands of Korean won)</i> | 2018 | | |
|-------------------------------------|--------------------|------------------|--------------------|
| | Land | Buildings | Total |
| At January 1, 2018 | 145,396,989 | 1,927,905 | 147,324,894 |
| Transfer | (3,281,824) | (1,379,436) | (4,661,260) |
| Depreciation | - | (32,552) | (32,552) |
| At December 31, 2018 | <u>142,115,165</u> | <u>515,916</u> | <u>142,631,081</u> |
| Acquisition cost | 142,115,165 | 644,827 | 142,759,992 |
| Accumulated depreciation | - | (128,911) | (128,911) |

Line items including depreciation in the statements of comprehensive income are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|-------------------------------------|---------------|---------------|
| Cost of sales | - | 16,466 |
| Selling and administrative expenses | <u>16,122</u> | <u>16,086</u> |
| | <u>16,122</u> | <u>32,552</u> |

Fair value of investment properties as at December 31, 2019, is ₩ 197,453,072 thousand (2018: ₩ 197,635,772 thousand). Rental income from investment properties is ₩ 1,384,039 thousand (2018: ₩ 1,530,405 thousand) and operating expenses (including depreciation) directly related to the investment properties is ₩ 182,566 thousand (2018: ₩ 203,573 thousand).

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17. Other Assets

Details of other assets are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|-------------------------------------|--------------------------|--------------------------|
| Current | | |
| Prepaid other taxes including VAT | 9,611 | 110,298 |
| Advance payments | 1,350,915 | 1,216,701 |
| Prepaid expenses | 2,973,053 | 2,867,693 |
| | <u>4,333,581</u> | <u>4,194,692</u> |
| Non-current | | |
| Prepaid expenses | 1,920 | - |
| | <u>1,920</u> | <u>-</u> |
| | <u>4,335,501</u> | <u>4,194,692</u> |

18. Other Payables

Details of other payables are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|-------------------------------------|--------------------------|--------------------------|
| Current | | |
| Other accounts payable | 11,695,117 | 18,893,426 |
| Accrued expenses | 21,839,930 | 7,585,082 |
| | <u>33,535,047</u> | <u>26,478,508</u> |
| Non-current | | |
| Other accounts payable | 674,771 | 316,102 |
| Leasehold deposits received | 566,270 | 582,470 |
| Withholdings | 10,000 | 10,000 |
| Accrued expenses | - | 11,254,794 |
| | <u>1,251,041</u> | <u>12,163,366</u> |
| | <u>34,786,088</u> | <u>38,641,874</u> |

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19. Net Defined Benefit Liabilities

Details of net defined benefit liabilities recognized in the consolidated statements of financial position are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|---|--------------------------|--------------------------|
| Present value of funded defined benefit obligations | 20,018,941 | 17,055,395 |
| Fair value of plan assets | <u>(8,407,079)</u> | <u>(6,178,501)</u> |
| Liability in the statement of financial position | <u>11,611,862</u> | <u>10,876,895</u> |

Changes in the defined benefit obligations are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|--|-------------------|-------------------|
| At January 1 | 17,055,395 | 16,809,869 |
| Current service cost | 4,624,946 | 3,715,881 |
| Interest cost | 334,013 | 388,211 |
| Transfer from related parties | 232,316 | - |
| Transfer to related parties | (148,637) | - |
| Benefits paid | (3,937,717) | (2,482,392) |
| Remeasurements: | | |
| Actuarial gains and losses arising from changes in demographic assumptions | 297,712 | (3,408) |
| Actuarial losses arising from changes in financial assumptions | 286,077 | 103,083 |
| Actuarial gains and losses arising from experience adjustments | 1,274,836 | (1,473,636) |
| Changes in consolidation scope | - | (2,213) |
| At December 31 | <u>20,018,941</u> | <u>17,055,395</u> |

Changes in the plan assets are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|---|------------------|------------------|
| At January 1 | 6,178,501 | 5,594,289 |
| Additional contribution | 3,500,000 | 2,000,000 |
| Interest income | 126,391 | 133,752 |
| Transfer from related parties | 197,508 | - |
| Transfer to related parties | (108,227) | - |
| Benefits paid | (1,458,990) | (1,502,839) |
| Remeasurements: | | |
| Return on plan assets (excluding amounts included in interest income) | (28,104) | (46,701) |
| At December 31 | <u>8,407,079</u> | <u>6,178,501</u> |

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Line items including total expenses and the amounts are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|--|------------------|------------------|
| Selling and administrative expenses ¹ | 3,712,726 | 3,219,717 |
| Cost of sales ¹ | 1,119,844 | 750,633 |
| | <u>4,832,570</u> | <u>3,970,350</u> |

¹ Depreciation of OSPS, OSU, Mecavision Co., Ltd. (formerly, Halla MTIS Co., Ltd.), HMTIS, HSC and its subsidiaries are presented as profit from discontinued operations in the consolidated statements of comprehensive income.

Plan assets consist of the following:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | December 31, 2018 | |
|-------------------------------------|--------------------------|--------------|--------------------------|--------------|
| | Amount | Ratio | Amount | Ratio |
| Deposits | 8,407,079 | 100% | 6,178,501 | 100% |

The principal actuarial assumptions used for the defined benefit obligations and plan assets are as follows:

| | December 31, 2019 | December 31, 2018 |
|------------------------------------|--------------------------|--------------------------|
| Discount rate | 1.87% ~ 1.93% | 2.3% |
| Expected rates of salary increases | 3.87% ~ 4.63% | 4.9% ~ 5.7% |

The sensitivity of the defined benefit obligations as of December 31, 2019, to changes in the principal assumptions is as follows:

| | Effect on defined benefit obligation | | |
|------------------------------------|---|-------------------------------|-------------------------------|
| | Changes in principal assumption | Increase in assumption | Decrease in assumption |
| Discount rate | 1.0% | 5.5% decrease | 6.3% increase |
| Expected rates of salary increases | 1.0% | 6.2% increase | 5.6% decrease |

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. But in practice, 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 recognized on the statement of financial position.

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The weighted average duration of the defined benefit obligations is 5.97 years. The information on expected maturity of undiscounted pension benefits as at December 31, 2019, is as follows:

| <i>(in thousands of Korean won)</i> | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|-------------------------------------|-------------------------|------------------------------|------------------------------|---------------------|--------------|
| Retirement benefits | 3,856,027 | 3,277,255 | 8,914,820 | 29,923,340 | 45,971,442 |

20. Provisions

The Group accrues warranty reserve for the estimated costs of future service, repairs and recalls to provide a warranty relating to defects for a specified period of time after sale.

In addition, when there is a probability that an outflow of economic benefits will occur from litigation or disputes and provision for restoration in accordance with lease agreement, and whose amount is reasonably estimable, a corresponding amount of provision is recognized as other provisions in the financial statement.

If the expected timing of any resulting outflows of economic benefits is within one year from the end of the reporting period, the amount is classified as current. If not, it is presented as non-current.

Changes in provisions are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | | 2018 | | |
|---|-------------------------|------------------|------------------|-------------------------|----------------|----------------|
| | Warranty reserve | Other | Total | Warranty reserve | Other | Total |
| At January 1 (before adjustment) | 432,312 | 239,933 | 672,245 | 409,009 | 239,933 | 648,942 |
| Effect of changes in accounting policy | - | 1,909,409 | 1,909,409 | 55,307 | - | 55,307 |
| At January 1 (after adjustment) | 432,312 | 2,149,342 | 2,581,654 | 464,316 | 239,933 | 704,249 |
| Additional provisions | 184,666 | 60,690 | 245,356 | 479,993 | - | 479,993 |
| Used amounts | (236,037) | - | (236,037) | (520,446) | - | (520,446) |
| Exchange differences | 7,312 | 8,111 | 15,423 | 8,449 | - | 8,449 |
| At December 31 | 388,253 | 2,218,143 | 2,606,396 | 432,312 | 239,933 | 672,245 |
| Current | 343,423 | 239,933 | 583,356 | 432,312 | 239,933 | 672,245 |
| Non-current | 44,830 | 1,978,210 | 2,023,040 | - | - | - |

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21. Debentures and Borrowings

Details of debentures are as follows:

| (in thousands of Korean won) | Issuance date | Maturity date | Interest rate (%) | December 31, 2019 | | December 31, 2018 | |
|---|---------------|---------------|-------------------|-------------------|-------------|-------------------|-------------|
| | | | | Current | Non-current | Current | Non-current |
| 6th-3 public debenture | 2013.12.6 | 2020.12.6 | 4.48 | 69,000,000 | - | - | 69,000,000 |
| 7th-3 public debenture | 2016.3.4 | 2021.3.4 | 3.40 | - | 36,000,000 | - | 36,000,000 |
| 8th-2 public debenture | 2016.11.1 | 2019.11.1 | - | - | - | 40,000,000 | - |
| 9th public debenture | 2017.7.12 | 2020.7.12 | 3.11 | 47,000,000 | - | - | 47,000,000 |
| 10th public debenture | 2018.03.14 | 2021.03.14 | 3.44 | - | 57,000,000 | - | 57,000,000 |
| 11th public debenture | 2019.09.27 | 2022.09.27 | 2.19 | - | 59,000,000 | - | - |
| 2 nd profit participating debenture ¹ | 2016.03.10 | 2022.03.10 | 5.00 | 80,000,000 | - | - | 80,000,000 |
| | | | | 196,000,000 | 152,000,000 | 40,000,000 | 289,000,000 |
| Less: Discount on debenture | | | | (81,647) | (402,290) | (51,889) | (484,377) |
| | | | | 195,918,353 | 151,597,710 | 39,948,111 | 288,515,623 |

¹ The holders of the debenture can participate cumulatively in dividend prior to the issuer's shareholders with respect to profits available for dividend of the issuer until the aggregate amount of the annual interest payments and dividends received becomes 15% of the par value of the debenture. The debenture is classified as a current liability as the creditor can exercise the right for early redemption under the terms of the agreement in case a prime debenture is repaid.

Details of short-term borrowings are as follows:

| (in thousands) | Creditor | Interest rate (%) | December 31, 2019 | December 31, 2018 |
|-----------------------|-------------------------|-------------------|-------------------|-------------------|
| Working capital loans | Woori Bank and others | 2.55~3.66 | 7,946,103 | 19,057,000 |
| | Shinhan Bank (China) | 4.09 | 403,493 | - |
| | Shinhan Bank (USA) | 3.31 | 2,428,138 | - |
| | | | USD (2,097) | |
| | Comerica Bank | 3.36~3.39 | 13,249,184 | 17,011,254 |
| | | | USD (11,443) | USD (12,364) |
| | Standard Chartered Bank | - | - | 533,573 |
| | | | CNY (3,278) | |
| | Halla Corporation | 4.60 | 17,300,000 | 17,300,000 |
| | | | 41,326,918 | 53,901,827 |

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Details of long-term borrowings are as follows:

| <i>(in thousands of Korean won)</i> | Creditor | Interest rate (%) | December 31, 2019 | | December 31, 2018 |
|---|--|-------------------|-------------------|--------------------|--------------------|
| | | | Current | Non-current | Non-current |
| General loans | The Korea Development Bank and others | 2.32~3.88 | - | 135,471,600 | 128,598,200 |
| General loans | Shinhan Bank (China) | 4.50 | - | 3,148,496 | - |
| Working capital loans | QNB Finans Bank | - | - | 292,005 | - |
| Acquisition financing loan ¹ | Saint Four Hi 1st Co., Ltd. and others | 4.20 | 80,000,000 | - | 80,000,000 |
| | | | <u>80,000,000</u> | <u>138,912,101</u> | <u>208,598,200</u> |
| Less: Discount on debenture | | | <u>(657,229)</u> | <u>-</u> | <u>(1,368,594)</u> |
| | | | <u>79,342,771</u> | <u>138,912,101</u> | <u>207,229,606</u> |

¹ In relation to the borrowing, shares of JJH held by the Company, deposit accounts and the first priority beneficial right of real estate trust held by JJH are provided as collateral (Maximum pledged amount: ₩ 143,000,000 thousand). Property, plant and equipment and investment property of JJH are pledged as a first-tier joint collateral security (Maximum amount: ₩ 1,000,000 thousand) and JJH entered into a real estate collateral trust agreement with Hana Asset Trust Corporation to guarantee the repayment of borrowing and performance of obligation. Moreover, JJH entered into a subordinate loan agreement to lend the borrower the amount of withholding tax on the interest income by corporate and local income tax law relate to the loan above. As at December 31, 2019, JJH loaned the borrower ₩ 331,985 thousand (2018: ₩ 331,985 thousand) under the agreement.

Details of collateral provided for borrowings are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | | | | |
|---|-------------------|----------------|----------------------------|----------------|--|
| | Carrying amount | Secured amount | Related line item | Related amount | Secured party |
| Land and buildings | 8,314,905 | 7,670,000 | General loans | 5,900,000 | Shinhan Bank |
| Land and buildings | 42,790,976 | 54,000,000 | Facility loans | 30,000,000 | The Korea Development Bank |
| Land and buildings | 2,714,012 | 2,714,012 | Line of credit | 2,428,138 | Shinhan Bank |
| Inventories, facilities and trade receivables | 28,661,412 | 28,661,412 | Line of credit | 10,354,684 | Comerica Bank |
| Long-term financial instruments | 292,005 | 292,005 | General loans | 292,005 | QNB Finans Bank |
| Shares of subsidiary ¹ | - | 50,000,000 | Acquisition financing loan | 80,000,000 | Saint Four Hi 1st Co., Ltd. and others |

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| <i>(in thousands of Korean won)</i> | December 31, 2018 | | | | |
|--|-------------------|----------------|----------------------------|----------------|--|
| | Carrying amount | Secured amount | Related line item | Related amount | Secured party |
| Land and buildings | 8,460,774 | 7,670,000 | General loans | 5,900,000 | Shinhan Bank |
| Land | 13,917,161 | 54,000,000 | Facility loans | 12,000,000 | The Korea Development Bank |
| Furniture & fixture and construction-in-progress | 29,892,510 | 14,500,000 | Facility loans | 12,000,000 | The Korea Development Bank |
| Inventories, facilities and trade receivables | 26,594,918 | 26,594,918 | Line of credit | 13,824,669 | Comerica Bank |
| Shares of subsidiary ¹ | - | 50,000,000 | Acquisition financing loan | 80,000,000 | Saint Four Hi 1st Co., Ltd. and others |

¹ The Company holds shares of JJH and its book amount in the separate financial position amounts to ₩ 19,134,919 thousand. Investments in the subsidiary and the equity of the subsidiary are offset in the consolidated financial position.

The Company and the spun-off company are jointly liable for the liabilities of the Company before the spin-off under Article 530-9 (1) in the Commercial Law of the Republic of Korea. As at December 31, 2019, the borrowings of MANDO before the spin-off amounts to ₩ 88,135 thousand.

22. Other Liabilities

Details of other liabilities are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|-------------------------------------|-------------------|-------------------|
| Current | | |
| Advances from customers | 1,913,473 | 2,668,214 |
| Withholdings | 2,972,541 | 1,169,425 |
| Unearned income | 1,719,947 | 1,262,740 |
| Other current liabilities | 360,068 | 8,333 |
| | <u>6,966,029</u> | <u>5,108,712</u> |
| Non-current | | |
| Long-term unearned income | 2,867,448 | 2,942,197 |
| Other non-current liabilities | - | 551,033 |
| | <u>2,867,448</u> | <u>3,493,230</u> |
| | <u>9,833,477</u> | <u>8,601,942</u> |

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23. Current and Deferred Tax

Components of income tax expense are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|---|------------------|------------------|
| Current income tax | 8,852,891 | 18,154,908 |
| Adjustments in respect of prior years | (2,901,563) | (451,702) |
| Changes in total deferred income tax | 3,030,443 | (6,522,108) |
| Changes in deferred tax recognized directly in equity | 511,281 | (1,922,701) |
| Changes in current tax recognized directly in equity | 22,238 | (45,219) |
| Exchange differences | 121,899 | (289,522) |
| Income tax expense | <u>9,637,189</u> | <u>8,923,656</u> |

The relationship between profit before income tax and income tax expense is as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|---|------------------|------------------|
| Profit before income tax | 52,108,646 | 35,238,473 |
| Tax at domestic tax rates applicable to profits in the respective countries | 12,787,413 | 9,931,538 |
| Adjustments: | | |
| Income not subject to tax or expenses not deductible for tax purposes | 1,842,801 | 1,436,412 |
| Deferred tax effects on temporary differences associated with the investment in subsidiaries and others | (7,535,106) | (4,313,967) |
| Changes in unrecognized deferred tax assets | 3,172,462 | 2,288,194 |
| Tax system for recirculation of corporate income | 1,498,654 | - |
| Adjustments in respect of prior years | (2,901,563) | (451,702) |
| Others | 772,528 | 33,180 |
| Income tax expense | <u>9,637,189</u> | <u>8,923,656</u> |
| Effective tax rate | 18.49% | 25.3% |

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Details of deferred tax assets and liabilities are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|---|--------------------------|--------------------------|
| Deferred tax assets | | |
| Deferred tax asset to be recovered within 1 year | 4,770,091 | 4,457,355 |
| Deferred tax asset to be recovered after more than 1 year | <u>24,571,669</u> | <u>12,715,978</u> |
| | <u>29,341,760</u> | <u>17,173,332</u> |
| Deferred tax liabilities | | |
| Deferred tax liability to be recovered within 1 year | (3,732,137) | (2,734,111) |
| Deferred tax liability to be recovered after more than 1 year | <u>(58,539,052)</u> | <u>(44,338,206)</u> |
| | <u>(62,271,189)</u> | <u>(47,072,318)</u> |
| Deferred tax liabilities, net | <u>(32,929,429)</u> | <u>(29,898,985)</u> |

The income tax changed on credited directly to equity is as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | |
|---|--------------------|-------------------|--------------------|
| | Before tax | Tax charge | After tax |
| Gain (loss) on valuation of equity instruments at fair value through other comprehensive income | (3,279,332) | 793,598 | (2,485,734) |
| Cash flow hedge | (91,892) | 22,238 | (69,654) |
| Foreign currency translation differences | 483,955 | - | 483,955 |
| Changes in the equity of associates and joint venture | 6,125,772 | (713,899) | 5,411,873 |
| Actuarial gains and losses | <u>(1,886,729)</u> | <u>431,579</u> | <u>(1,455,150)</u> |
| | <u>1,351,774</u> | <u>533,516</u> | <u>1,885,290</u> |

| <i>(in thousands of Korean won)</i> | 2018 | | |
|---|-------------------|----------------------------|------------------|
| | Before tax | Tax (charge) credit | After tax |
| Gain (loss) on valuation of equity instruments at fair value through other comprehensive income | 2,373,664 | (574,427) | 1,799,237 |
| Cash flow hedge | 186,856 | (45,219) | 141,637 |
| Foreign currency translation differences | 2,362,670 | - | 2,362,670 |
| Changes in the equity of associates and joint venture | (2,778,879) | (1,219,626) | (3,998,505) |
| Actuarial gains and losses | <u>1,327,262</u> | <u>(379,075)</u> | <u>948,187</u> |
| | <u>3,471,573</u> | <u>(2,218,347)</u> | <u>1,253,226</u> |

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Changes in total deferred tax are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | | | |
|---|--|----------------------|--|---|--------------------------|
| | Deferred tax assets (liabilities) | | | | |
| | January 1, 2019 | Profit (loss) | Changes in other comprehensive income of controlling interest | Currency translation differences | December 31, 2019 |
| Retirement benefit liabilities | 2,057,731 | (385,055) | 431,579 | - | 2,104,255 |
| Employee benefits | 62,288 | 101,007 | - | - | 163,295 |
| Accrued expenses | 171,231 | 14,966 | - | - | 186,197 |
| Depreciation | 7,601,962 | (1,240,847) | - | - | 6,361,115 |
| Amortization | 1,574 | (568) | - | - | 1,006 |
| Investments in subsidiaries and others | (13,538,831) | (2,082,550) | (713,899) | (78,957) | (16,414,237) |
| Unused tax losses | 5,693,777 | 194,201 | - | 200,859 | 6,088,837 |
| Losses on valuation of inventories | 69,200 | 58,492 | - | - | 127,692 |
| Revaluation of land | (36,267,138) | 1,096,415 | - | - | (35,170,723) |
| Impairment loss on intangible assets | 234,630 | - | - | - | 234,630 |
| Bed debts expense | 193,890 | 191 | - | - | 194,081 |
| Provisions for impairment | 3,810,380 | 291,449 | - | - | 4,101,829 |
| Provisions | 110,664 | (70,764) | - | - | 39,900 |
| Accrued income | (2,734,111) | (783,480) | - | - | (3,517,591) |
| Valuation of derivatives | 66,805 | (53,159) | - | - | 13,646 |
| Financial assets at fair value through profit or loss | 1,398,831 | (912,953) | - | - | 485,878 |
| Financial assets at fair value through other comprehensive income | 1,181,491 | - | 793,598 | - | 1,975,089 |
| Lease assets | - | (6,422,945) | - | - | (6,422,945) |
| Lease liabilities | - | 6,674,589 | - | - | 6,674,589 |
| Others | (13,360) | (142,612) | - | - | (155,972) |
| | <u>(29,898,986)</u> | <u>(3,663,623)</u> | <u>511,281</u> | <u>121,899</u> | <u>(32,929,429)</u> |

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| <i>(in thousands of Korean won)</i> | 2018 | | | | |
|---|-----------------------------------|------------------|--|--|----------------------|
| | Deferred tax assets (liabilities) | | | | |
| | January 1, 2018 | Profit (loss) | Changes in other comprehensive income of controlling interest | Currency translation differences | December 31, 2018 |
| Retirement benefit liabilities | 2,246,794 | 190,011 | (379,074) | - | 2,057,731 |
| Employee benefits | 85,787 | (23,499) | - | - | 62,288 |
| Available-for-sale financial assets | 1,755,917 | (1,431,915) | (324,002) | - | - |
| Accrued expenses | 58,891 | 112,340 | - | - | 171,231 |
| Depreciation | 6,162,188 | 1,439,774 | - | - | 7,601,962 |
| Amortization | 1,564 | 10 | - | - | 1,574 |
| Investments in subsidiaries and others | (11,165,411) | 4,313,968 | (1,219,625) | - | (8,071,068) |
| Losses on valuation of inventories | 64,003 | 5,197 | - | - | 69,200 |
| Revaluation of land | (39,238,996) | 2,971,858 | - | - | (36,267,138) |
| Impairment loss on intangible assets | 234,630 | - | - | - | 234,630 |
| Bad debts expense | 295,192 | (101,302) | - | - | 193,890 |
| Provisions for impairment | 4,006,420 | (196,040) | - | - | 3,810,380 |
| Provisions | 100,737 | 9,927 | - | - | 110,664 |
| Accrued income | (1,777,187) | (956,924) | - | - | (2,734,111) |
| Valuation of derivatives | 513,046 | (446,241) | - | - | 66,805 |
| Financial assets at fair value through profit or loss | - | 1,398,831 | - | - | 1,398,831 |
| Financial assets at fair value through other comprehensive income | - | - | 1,181,491 | - | 1,181,491 |
| Others | 235,331 | 266,844 | - | (289,521) | 212,654 |
| | <u>(36,421,094)</u> | <u>7,552,839</u> | <u>(741,210)</u> | <u>(289,521)</u> | <u>(29,898,986)</u> |

Deferred tax assets are recognized for deductible temporary differences and tax loss carryforwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred tax assets in respect of accumulated tax loss amounting to ₩ 148,042,851 thousand (2018: ₩ 135,959,291 thousand) carried forward from business combination (Halla Jeju Development Corporation) in 2019 because it is not probable to be utilised. Unused tax loss carryforwards mature up to 2029.

In addition, the Group did not recognize the deferred tax assets related to deductible temporary differences amounting to ₩ 48,064,125 thousand (2018: ₩ 36,243,177 thousand) that are expected to be not realizable.

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As at December 31, 2019, the Group did not recognize deferred tax assets for temporary differences on certain investments in associates amounting to ₩ 194,030,153 thousand (2018: ₩ 201,144,903 thousand) as it is not probable that the temporary differences will reverse in the foreseeable future.

24. Share Capital, Other Components of Equity and Accumulated Other Comprehensive Income

There are no changes in share capital and share premium of the Group for the periods ended December 31, 2019 and 2018.

Details of the Group's share capital are as follows:

| | December 31, 2019 | December 31, 2018 |
|--|--------------------------|--------------------------|
| Authorized shares to issue (in shares) | 100,000,000 | 100,000,000 |
| Issued shares (in shares) ¹ | 10,802,691 | 10,802,691 |
| Par value per share (in Korean won) | 5,000 | 5,000 |

¹ On May 3, 2013, the Company retired 545,166 treasury shares by an appropriation of retained earnings based on the Clause 1, Article 343 of the Commercial Law of the Republic of Korea. Accordingly, the amount of share capital is different from the total par value for the issued shares.

Details of other components of equity are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|--|--------------------------|--------------------------|
| Treasury shares | - | (13,686,156) |
| Gain on disposal of treasury shares | 2,734,106 | 2,734,106 |
| Loss on spin-off | (22,790,837) | (22,790,837) |
| Other component of equity due to transactions with the owners of the Company | (1,319,232) | (1,319,232) |
| | <u>(21,375,963)</u> | <u>(35,062,119)</u> |

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Changes in the accumulated other comprehensive income (after income tax effect) are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | | | |
|---|---------------------|--------------------------------|---|-----------------------|
| | At January 1 | Increase (decrease) | Reclassified to profit or loss | At December 31 |
| Financial assets at fair value through other comprehensive income | (3,700,703) | (2,485,734) | - | (6,186,437) |
| Cash flow hedges | 245,892 | 2,041,949 | (2,111,603) | 176,238 |
| Foreign currency translation differences | 204,739 | 482,880 | - | 687,619 |
| Other comprehensive income of associates and others | <u>(52,765,693)</u> | <u>5,411,873</u> | <u>-</u> | <u>(47,353,820)</u> |
| | <u>(56,015,765)</u> | <u>5,450,968</u> | <u>(2,111,603)</u> | <u>(52,676,400)</u> |

| <i>(in thousands of Korean won)</i> | 2018 | | | | |
|---|---------------------|---|--------------------------------|---|---------------------------|
| | At January 1 | Effect of changes in accounting policy | Increase (decrease) | Reclassified to profit or loss | At December 31 |
| Financial assets at fair value through other comprehensive income | - | (5,499,940) | 1,799,237 | - | (3,700,703) |
| Available-for-sale financial assets | (236,963) | 236,963 | - | - | - |
| Cash flow hedges | 104,255 | - | 698,556 | (556,919) | 245,892 |
| Foreign currency translation differences | (2,156,935) | - | 2,361,675 | - | 204,740 |
| Other comprehensive income of associates and others | <u>(45,530,574)</u> | <u>(3,236,614)</u> | <u>(4,397,364)</u> | <u>398,859</u> | <u>(52,765,693)</u> |
| | <u>(47,820,217)</u> | <u>(8,499,591)</u> | <u>462,104</u> | <u>(158,060)</u> | <u>(56,015,764)</u> |

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25. Retained Earnings

Details of the Group's retained earnings are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | December 31, 2018 |
|-------------------------------------|--------------------------|--------------------------|
| Legal reserve | 27,543,090 | 27,543,090 |
| Unappropriated retained earnings | <u>615,486,201</u> | <u>611,667,485</u> |
| | <u>643,029,291</u> | <u>639,210,575</u> |

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

The cash dividends of the Group for the financial year ended December 31, 2018, amounting to ₩ 21,030,124 thousand, were paid in April 2019. The cash dividends of the Group for the financial year ended December 31, 2019, amounting to ₩ 20,944,140 thousand, will be proposed at the general meeting of shareholders on March 20, 2020. These financial statements do not include this dividend payable.

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26. Selling and Administrative Expenses

Details of selling and administrative expenses are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|---|-------------------|-------------------|
| Salaries and wages | 31,646,710 | 25,718,342 |
| Retirement benefits | 3,712,726 | 2,919,888 |
| Employee fringe benefits | 5,798,559 | 5,051,363 |
| Travel | 1,741,003 | 1,352,820 |
| Communication | 210,323 | 186,498 |
| Water, light, heating and others | 451,203 | 504,358 |
| Taxes and dues | 503,273 | 2,573,532 |
| Rent | 1,405,393 | 3,440,495 |
| Depreciation on property, plant and equipment | 2,010,200 | 1,519,691 |
| Depreciation on investment properties | 16,122 | 16,086 |
| Depreciation on right-of-use assets | 3,620,832 | - |
| Repair and maintenance | 537,512 | 478,106 |
| Insurance premium | 477,188 | 284,985 |
| Entertainment | 868,339 | 635,480 |
| Advertising | 3,834,436 | 3,580,997 |
| Overseas marketing | 117,896 | 147,793 |
| Export expenses | 692,016 | - |
| Sample expenses | 169,551 | - |
| Packing expenses | 1,267,632 | 834,771 |
| Freight expenses | 2,663,165 | 2,558,907 |
| Research and development expenses | 318,679 | 165,501 |
| Commissions | 17,237,384 | 15,056,342 |
| Office supplies expenses | 108,877 | 57,185 |
| Supplies expenses | 763,162 | 511,181 |
| Publication | 104,412 | 91,764 |
| Training | 614,803 | 489,274 |
| Vehicles | 314,853 | 281,871 |
| Warranty expenses | 184,666 | 479,994 |
| Amortization | 1,772,719 | 1,968,696 |
| Others | 95,354 | 1,518,196 |
| | <u>83,258,988</u> | <u>72,424,116</u> |

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27. Expenses by Nature

Expenses by nature for the cost of sales and selling and administrative expenses are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|---|--------------------|--------------------|
| Materials consumed and purchase of merchandise, net | 463,274,581 | 552,825,736 |
| Changes in inventories | (5,071,368) | 15,990,542 |
| Employee benefit expenses | 55,264,463 | 46,435,392 |
| Depreciation on property, plant and equipment | 7,152,278 | 5,833,118 |
| Depreciation on investment properties | 16,122 | 32,552 |
| Depreciation on right-of-use assets | 13,858,858 | - |
| Amortization | 2,349,665 | 2,324,471 |
| Employee fringe benefits | 7,213,715 | 6,753,055 |
| Commissions | 102,006,139 | 86,987,153 |
| Water, light, heating and others | 2,574,112 | 2,747,610 |
| Repair and maintenance | 1,223,017 | 941,095 |
| Others | 72,867,443 | 108,058,369 |
| | <u>722,729,025</u> | <u>828,929,093</u> |

28. Other Income and Expenses

Details of other income and expenses are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|---|------------------|-------------------|
| Other income | | |
| Exchange differences | 3,594,703 | 3,426,603 |
| Dividend income | 260,255 | 260,255 |
| Gain on valuation of financial assets at fair value | 18,147 | 62,192 |
| Gain on disposal of property, plant and equipment | 79,463 | 6,228,443 |
| Gain on transaction of derivatives | 224,299 | 114,986 |
| Gain on valuation of derivatives | 4,878,392 | 2,878,524 |
| Gain on disposal of investments in associates | - | 2,765,520 |
| Gain on disposal of investments in subsidiaries | - | 645,967 |
| Others | 516,450 | 695,728 |
| | <u>9,571,709</u> | <u>17,078,218</u> |
| Other expenses | | |
| Exchange differences | 2,662,425 | 2,207,712 |
| Loss on valuation of financial assets at fair value | 59,373 | - |
| Loss on disposal of financial assets at fair value | - | 18,210 |
| Loss on disposal of property, plant and equipment | 82,761 | 3,236,552 |
| Loss on disposal of intangible assets | 85,140 | - |
| Loss on transaction of derivatives | - | 292,600 |

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| | | |
|----------------------------------|------------------|-------------------|
| Loss on valuation of derivatives | 195,896 | 6,129,491 |
| Donations | 4,125,968 | 3,276,898 |
| Contribution to other provisions | 32,818 | - |
| Other impairment loss | - | 500,000 |
| Others | 396,963 | 138,796 |
| | <u>7,641,344</u> | <u>15,800,259</u> |

29. Finance Income and Costs

Details of finance income and costs are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|---|-------------------|-------------------|
| Interest income using the effective interest rate method | | |
| Interest income | 1,411,689 | 1,386,723 |
| Other finance income | | |
| Exchange differences | <u>394,250</u> | <u>457,300</u> |
| | <u>1,805,939</u> | <u>1,844,023</u> |
| Finance costs | | |
| Interest expenses | 25,968,841 | 24,235,100 |
| Exchange differences | <u>1,076,587</u> | <u>1,160,467</u> |
| | <u>27,045,428</u> | <u>25,395,567</u> |

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30. Earnings Per Share

Basic earnings per share is calculated by dividing the profit attributable to Shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial year excluding shares purchased by the Company and held as treasury shares.

Calculations of basic earnings per share are as follows:

| <i>(in Korean won and in shares)</i> | 2019 | 2018 |
|--|------------------------|-------------------------|
| Profit attributable to the ordinary equity holders of the Parent Company | 42,469,246,389 | 26,303,897,892 |
| Loss from discontinued operation attributable to the ordinary equity holders of the Parent Company | <u>(1,408,539,731)</u> | <u>(13,193,861,002)</u> |
| | 41,060,706,658 | 13,110,036,890 |
| Weighted average number of ordinary shares outstanding | <u>10,472,478</u> | <u>10,640,655</u> |
| Basic earnings per share | | |
| Basic earnings per share from continuing operations | 4,055 | 2,472 |
| Basic losses per share from discontinued operations | <u>(134)</u> | <u>(1,240)</u> |

Calculations of weighted average number of ordinary shares outstanding are as follows:

| <i>(unit: shares)</i> | 2019 | 2018 |
|---|-------------------|-------------------|
| Ordinary shares in issue at January 1 | 10,515,062 | 10,669,088 |
| Ordinary shares in issue at December 31 | <u>10,472,070</u> | <u>10,515,062</u> |
| Weighted average number of ordinary shares in issue | <u>10,472,478</u> | <u>10,640,655</u> |

The Group has no potential ordinary shares. Accordingly, diluted earnings per share is the same as the basic earnings per share.

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31. Cash Generated from Operations

Cash generated from operations is as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|--|-------------------|---------------------|
| Profit before income tax | 50,700,106 | 22,028,084 |
| Adjustments for: | | |
| Share of profit of associates and joint venture | (40,880,290) | (23,575,633) |
| Gain on disposal of investments in associates | - | (2,765,520) |
| Loss on disposal of financial assets at fair value | - | 18,210 |
| Gain on disposal of discontinued operations ¹ | (311,640) | - |
| Gain on disposal of investments in subsidiaries | - | (645,967) |
| Loss (gain) on valuation of financial assets at fair value | 41,226 | (62,192) |
| Depreciation ¹ | 7,168,401 | 6,897,482 |
| Amortization ¹ | 2,349,664 | 2,686,605 |
| Depreciation on right-of-use assets | 13,858,858 | - |
| Retirement benefits ¹ | 4,832,569 | 3,970,341 |
| Bad debts expenses ¹ | 218,361 | 107,131 |
| Sales warranty expenses | 184,666 | 479,994 |
| Other bad debts expenses | - | 500,000 |
| Loss on valuation of inventories | 319,612 | 19,210 |
| Loss (gain) on valuation of derivatives | (4,682,496) | 3,250,967 |
| Loss (gain) on transaction of derivatives | (224,299) | 177,614 |
| Loss (gain) on disposal of property, plant and equipment | 3,298 | (2,991,891) |
| Loss on disposal of intangible assets | 85,140 | 2,258,465 |
| Exchange differences | 1,081,804 | 1,008,083 |
| Contribution to provisions | 32,818 | - |
| Dividend income | (260,255) | (260,255) |
| Interest income | (1,345,967) | (1,386,723) |
| Interest expenses | 24,408,681 | 24,235,100 |
| | <u>6,880,151</u> | <u>13,921,021</u> |
| Changes in working capital: | | |
| Decrease (increase) in trade receivables | 41,837,671 | (8,002,821) |
| Decrease in loans and other receivables | 400,970 | 190,269 |
| Increase in inventories | (2,732,016) | (13,037,280) |
| Decrease (increase) in other assets | (1,432,355) | 1,667,678 |
| Decrease in trade payables | (37,858,382) | (6,011,289) |
| Increase in other payables | 6,101,678 | 1,849,065 |
| Payment of retirement benefit, net | (2,484,331) | (979,552) |
| Reserve of plan assets | (3,500,000) | (2,000,000) |
| Decrease in provisions | (236,037) | (520,447) |
| Increase (decrease) in other liabilities | 1,188,771 | (4,267,725) |
| | <u>1,285,969</u> | <u>(31,112,102)</u> |
| Cash generated from operations | <u>58,866,226</u> | <u>4,837,003</u> |

¹ Adjustments of OSPS, OSU and Mecavision Co., Ltd. (formerly, Halla MTIS Co., Ltd.) are presented as profit from discontinued operations in the consolidated statements of comprehensive

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income.

Significant non-cash transactions are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|---|-------------|-------------|
| Reclassification of current portion of long-term borrowings and debentures | 195,878,712 | - |
| Extend the maturity of current portion of long-term borrowings | - | 58,000,000 |
| Repayment of current portion of long-term borrowings with short-term borrowings | - | 8,000,000 |
| Increase in other payables relating to the acquisition of property, plant and equipment and intangible assets | 549,699 | 11,736,605 |
| Transfer of inventories to property, plant and equipment | - | 9,126,283 |
| Transfer of investment properties to property, plant and equipment | - | 4,661,260 |
| Transfer of property, plant and equipment to intangible assets | - | 209,140 |
| Retirement of treasury shares | 15,592,239 | - |

Changes in liabilities arising from financing activities are as follows:

| <i>(in thousands of Korean won)</i> | At January 1, 2019 | Changes in accounting policies | Cash flows from financing activities | Non-cash transactions | | | At December 31, 2019 |
|---|---------------------------|---------------------------------------|---|------------------------------|--|-----------------|-----------------------------|
| | | | | Exchange differences | Other non-financial changes¹ | Transfer | |
| Short-term borrowings | 53,901,827 | - | (13,205,127) | 630,217 | - | - | 41,326,917 |
| Current portion of long-term borrowings | - | - | - | - | 711,365 | 78,631,406 | 79,342,771 |
| Long-term borrowings | 207,229,606 | - | 9,440,501 | 873,400 | - | (78,631,406) | 138,912,101 |
| Debentures | 328,463,734 | - | 18,730,700 | - | 321,629 | - | 347,516,063 |
| Lease liabilities | - | 46,794,358 | (13,570,343) | - | 7,884,816 | - | 41,108,831 |
| | <u>589,595,167</u> | <u>46,794,358</u> | <u>1,395,731</u> | <u>1,503,617</u> | <u>8,917,810</u> | <u>-</u> | <u>648,206,683</u> |

| <i>(in thousands of Korean won)</i> | At January 1, 2018 | Cash flows from financing activities | Non-cash transactions | | | | At December 31, 2018 |
|-------------------------------------|---------------------------|---|------------------------------|------------------|---------------------------------------|---------------|-----------------------------|
| | | | Exchange differences | Write-off | Changes in consolidation scope | Switch | |
| Short-term borrowings | 81,667,626 | (35,666,728) | 420,929 | - | (520,000) | 8,000,000 | 53,901,827 |
| Long-term borrowings | 140,576,542 | 73,239,229 | 939,803 | 474,032 | - | (8,000,000) | 207,229,606 |
| Debentures | 421,371,910 | (93,274,660) | - | 366,484 | - | - | 328,463,734 |
| | <u>643,616,078</u> | <u>(55,702,159)</u> | <u>1,360,732</u> | <u>840,516</u> | <u>(520,000)</u> | <u>-</u> | <u>589,595,167</u> |

(*) Other non-financial changes include non-cash changes and interest payments that are presented in the consolidated statement of cash flows as operating activities at the time of payment.

The Group presented cash receipts and payments on a net basis for financial deposits and short-

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term borrowings in which the turnover is quick, the amounts are large, and the maturities are short.

32. Contingencies and Commitments

Significant financing agreements of the Group are as follows:

| <i>(in thousands)</i> | Details | Maximum limit | | | |
|----------------------------|---|-------------------|-------------------|-----|------------|
| | | December 31, 2019 | December 31, 2018 | | |
| KEB Hana Bank | Comprehensive credit line | KRW | 5,000,000 | KRW | 5,000,000 |
| | Revolving loan for general corporate purpose ¹ | KRW | 3,000,000 | KRW | 3,000,000 |
| | Letters of credit ¹ | KRW | 1,000,000 | KRW | 1,000,000 |
| | General corporate purpose loan | KRW | 30,000,000 | KRW | 30,000,000 |
| | Overdraft | KRW | 100,000 | KRW | 100,000 |
| | Factoring agreements for notes receivable | KRW | 20,000,000 | KRW | 20,000,000 |
| | Factoring agreements for trades receivable-electronic | KRW | 10,000 | KRW | 10,000 |
| | e-purchase loan (Hyundai Mobis Co., Ltd.) | KRW | 59,900,000 | KRW | 59,900,000 |
| NH Bank | General loan | KRW | 5,000,000 | KRW | 5,000,000 |
| Shinhan Bank | Revolving loan for general corporate purpose | KRW | 5,900,000 | KRW | 10,300,000 |
| Woori Bank | Revolving loan for general corporate purpose | KRW | - | KRW | 15,000,000 |
| | Overdraft | KRW | 10,000,000 | KRW | 10,000,000 |
| Kookmin Bank | General corporate purpose loan | KRW | 10,000,000 | KRW | 10,000,000 |
| | Factoring agreements for trades receivable-electronic | KRW | 15,000,000 | KRW | 10,000,000 |
| The Korea Development Bank | General corporate purpose loan | KRW | 15,000,000 | KRW | 15,000,000 |
| | General borrowings | KRW | 50,000,000 | KRW | 50,000,000 |
| | Facility loan | KRW | 30,000,000 | KRW | 30,000,000 |

¹ Included in the comprehensive credit line.

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Significant financing agreements of the consolidated subsidiaries are as follows:

| <i>(in thousands)</i> | | Maximum limit | | | |
|-----------------------|---|-------------------|-------------|-------------------|-------------|
| | | December 31, 2019 | | December 31, 2018 | |
| Subsidiaries | Financial institutions and agreements | | | | |
| MLCA | Comerica Bank | | | | |
| | Working capital loans | USD | 3,000 | USD | 3,000 |
| HMTC | Standard Chartered Bank | | | | |
| | Working Capital Loan | USD | - | USD | 2,000 |
| URIMAN | Comerica Bank | | | | |
| | Line of Credit | USD | 15,000 | USD | 15,000 |
| | Shinhan Bank | | | | |
| | Line of Credit | USD | 4,000 | - | - |
| WECO | Woori Bank | | | | |
| | General loan | KRW | 3,000,000 | KRW | 2,000,000 |
| | Factoring agreements for trades receivable-electronic | KRW | 4,000,000 | KRW | 4,000,000 |
| | The Korea Development Bank | | | | |
| | General loan | KRW | - | KRW | 1,000,000 |
| JJH | Saint Four Hi 1st Co., Ltd. and others | | | | |
| | Acquisition financing loan | KRW | 110,000,000 | KRW | 110,000,000 |
| HCE | QNB Finans Bank | | | | |
| | General loan | TRY | 1,500 | - | - |

The Group's payment guarantees provided by others are as follows:

| <i>(in thousands of Korean won and USD)</i> | | Maximum limit | | Remarks |
|---|------------|-------------------|--|---------|
| | | December 31, 2019 | December 31, 2018 | |
| Provided by | | | | |
| Woori Bank | 6,000,000 | 6,000,000 | Guarantee for payment of | |
| KEB Hana Bank | 1,000,000 | 1,000,000 | purchase of goods and others | |
| Seoul Guarantee Insurance Company | 9,890,842 | 10,484,850 | Performance guarantee and others | |
| Kookmin Bank | USD 22,000 | USD 22,000 | Comprehensive foreign-currency payment guarantee | |

The Company spun off the automotive business segment on September 1, 2014. In accordance with Article 530-9 (1) in the Commercial Law of the Republic of Korea, the Company and Mando Corporation, a newly established entity, are jointly and severally liable for the liabilities of the Company prior to the spin off date. As at December 31, 2019, the borrowings of MANDO before the spin-off amounts to ₩ 88,135 thousand.

As at December 31, 2019, the Company has entered into a royalty agreement with major related parties, including Mando Corporation, for the use of the brand and trademark of the Company. In relation to the agreement, the Company has received certain amount of sales from counterparties as commissions.

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As at December 31, 2019, the Company has entered into the agreement under which HL compensates operating losses incurred in related to Pyeongtaek Refrigerated Logistics Warehouse.

The Company is providing a promissory note of ₩ 70,000,000 thousand issued by the Company as collateral to Hyundai Mobis Co., Ltd. relating to the payment of purchase of goods.

The Company filed a lawsuit as a plaintiff amounting to ₩ 20,506,540 thousand against Suwon Hwaseong Osan Livestock Industry Cooperative and Age Farm Co., Ltd. claiming collection of merchandise sales amounts, and the difference between the estimated future recoverable amount depending on the outcome of the pending lawsuit and the carrying amount of the related other receivables is recognized as allowance for doubtful accounts. Also, the Group has entered the agreement under which HALLA ENCOM compensates a certain portion of expected loss from the outcome of the lawsuit.

Shares of JJH held by the Company are pledged as collateral relating to acquisition financing loan amounting to ₩ 80,000,000 thousand of JJH, a subsidiary (Note 21). The Company is providing fund supplement agreement for principal and interest of the borrowings. As it is not probable that liabilities will reverse in the foreseeable future from the fund supplement agreement, the Company does not recognize the provisions. In order to collateralize the repayment of the principal of the borrowings, Property, Plant and Equipment and Investment properties of JJH are pledged as a first tier joint collateral security (Maximum amount ₩ 1,000,000 thousand), and JJH's deposit accounts and the first priority beneficial right of real estate trust held by JJH are provided as collateral (Maximum amount ₩ 143,000,000 thousand). Moreover, JJH entered into a subordinate loan agreement to lend the borrower the amount of withholding tax on the interest income by corporate and local income tax law relate to the loan above. As at December 31, 2019, JJH loaned the borrower ₩ 331,985 thousand (2018: ₩ 331,985 thousand) under the agreement.

Other loan agreements of the borrowings mentioned above are as follows:

Details

Compliance matters The Company maintains 67% of ownership in J.J. Halla Corporation (the 'Target Company')

The Borrower shall not assume any financial liabilities without the written consent of the Lender

The waivers of debt covenant contain collateral or material properties of borrower is enforced an order of seizure over amount ₩ 5,000,000 thousand.

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33. Related Party Transactions

As at December 31, 2019 and 2018, there is no parent company or ultimate parent company of the Company. Details of the Group's associates and joint venture are as follows.

| Investee | Abbreviation ¹ | Location | Percentage of ownership (%) | | Closing month |
|--------------------------------|---------------------------|----------|-----------------------------|-------|---------------|
| | | | 2019 | 2018 | |
| Joint venture | | | | | |
| Mando-Hella Electronics Corp. | MHE | Korea | 50.00 | 50.00 | December |
| Associates | | | | | |
| Mando Corporation | MANDO | Korea | 30.25 | 30.25 | December |
| Halla Corporation | HL | Korea | 15.85 | 15.85 | December |
| Halla Stackpole Corporation | HSC | Korea | 20.00 | 20.00 | March |
| JD Tech Corp. | JDT | Korea | 35.09 | 35.09 | December |
| AMT Engineering Co., Ltd. | AMT | Korea | 22.22 | 22.22 | December |
| WIDE CORPORATION | WD | Korea | 19.24 | - | December |
| My Chef Co., Ltd. ² | MY | Korea | 10.33 | - | March |

¹ Abbreviations are used hereinafter.

² The Company has acquired redeemable convertible preferred shares of My Chef Co., Ltd. with voting rights during the year. The redeemable convertible preferred shares were recognized as financial instruments at fair value through profit and loss but the Company included My Chef Co., Ltd in related parties as it has significant influence through the interchange of managerial personnel.

Details of other related parties are as follows:

| December 31, 2019 | December 31, 2018 | Abbreviation ¹ | Remark |
|--|--|---------------------------|-----------------------------------|
| Mando-Hella Electronics (Suzhou) Co., Ltd. | Mando-Hella Electronics (Suzhou) Co., Ltd. | MHES | Subsidiaries of MHE |
| Mando-Hella Electronics Automotive India Private Limited | Mando-Hella Electronics Automotive India Private Limited | MHEAI | |
| Mando China Holdings Limited | Mando China Holdings Limited | MCH | Subsidiaries of Mando Corporation |
| Mando Suzhou Chassis System Co., Ltd. | Mando Suzhou Chassis System Co., Ltd. | MSC | |
| Mando(Beijing) Automotive Chassis System Co., Ltd. | Mando(Beijing) Automotive Chassis System Co., Ltd. | MBC | |
| Mando(Tianjin) Automotive Parts Co., Ltd. | Mando(Tianjin) Automotive Parts Co., Ltd. | MTC | |
| Mando(Harbin) Automotive Chassis System Co., Ltd. | Mando(Harbin) Automotive Chassis System Co., Ltd. | MHC | |
| Mando(Ningbo) Automotive Parts Co., Ltd. | Mando(Ningbo) Automotive Parts Co., Ltd. | MNC | |
| Mando(Shenyang) Automotive Parts Co., Ltd. | Mando(Shenyang) Automotive Parts Co., Ltd. | MSYC | |
| Mando(Beijing) R&D Center | Mando(Beijing) R&D Center | MRC | |
| Mando(Beijing) Trading Co., Ltd. | Mando(Beijing) Trading Co., Ltd. | MBTC | |
| Mando Chongqing Chassis System | Mando Chongqing Chassis System | MCC | |

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| December 31, 2019 | December 31, 2018 | Abbreviation ¹ | Remark |
|--|--|---------------------------|-------------------|
| Co., Ltd | Co., Ltd | | |
| Mando Corporation Mexico | Mando Corporation Mexico | MCM | |
| Mando America Corporation | Mando America Corporation | MCA | |
| Alabama Plating Technology LLC | - | APT | |
| Mando Automotive India Limited | Mando Automotive India Limited | MAIL | |
| Mando Softtech India Private, Ltd. | Mando Softtech India Private, Ltd. | MSI | |
| Mando Corporation Europe GmbH | Mando Corporation Europe GmbH | MCE | |
| Mando Corporation do Brasil Industry and Commercial Auto Parts Ltda. | Mando Corporation do Brasil Industry and Commercial Auto Parts Ltda. | MCB | |
| Mando Corporation Poland | Mando Corporation Poland | MCP | |
| Mokpo Newport Management Co., Ltd. | Mokpo Newport Management Co., Ltd. | MPO | Subsidiary of HL |
| - | Halla Development Corporation | HLD | |
| HALLA CERAGIO Corporation | HALLA CERAGIO Corporation | HLC | |
| Halla Corporation America | Halla Corporation America | HCA | |
| HALLA Operation & Maintenance Services Co., Ltd. | HALLA Operation & Maintenance Services Co., Ltd. | HLO | |
| - | H-Water Co., Ltd | - | |
| Halla GLS Co., Ltd. (formerly, K-ECO LOGIS Co., Ltd.) and others | Halla GLS Co., Ltd. (formerly, K-ECO LOGIS Co., Ltd.) and others | - | |
| Halla Stackpole(Beijing) Automotive Co., Ltd. | Halla Stackpole(Beijing) Automotive Co., Ltd. | HSBC | Subsidiary of HSC |
| - | Mecavision Co., Ltd. (formerly, Halla MTIS Co., Ltd.) | HMTIS | |
| Maysan Mando Otomotiv Parcalari Sanayi VE Ticaret | Maysan Mando Otomotiv Parcalari Sanayi VE Ticaret | MMT | |
| Mando Brose Corporation | Mando Brose Corporation | MBCO | |
| Mando Brose(Zhangjiagang) Electric Motors Co., Ltd | Mando Brose(Zhangjiagang) Electric Motors Co., Ltd | MBZ | |
| Halla Development Corporation and others | - | - | |

¹ Abbreviations are used hereinafter.

² Although the entity is not the related party of the Group in accordance with Korean IFRS 1024, the entity belongs to the Large Enterprise Group to which the Group also belongs in accordance with the Monopoly Regulation.

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Significant sales transactions with related parties are as follows are as follows:

| | | 2019 | | | |
|-------------------------------------|--|-----------------------|------------------------------|-----------------------|-------------------|
| <i>(in thousands of Korean won)</i> | | Sales of goods | Rendering of services | Royalty income | Others |
| Associates and joint venture | MANDO | 17,267,340 | 91,257,315 | 23,536,879 | 4,873,909 |
| | HL | 10,710,837 | 7,702,934 | 2,482,937 | 1,843,885 |
| | JDT | - | 9,000 | - | - |
| | MHE | 97,929 | 4,588,805 | - | 1,136 |
| | HSC | 4,700 | 150,463 | - | - |
| Other related parties | Subsidiaries and joint ventures of MANDO | 100,360,313 | 68,654,060 | - | 9,137 |
| | Subsidiaries of HL | 21,086 | 499,457 | 246,981 | 3,955,140 |
| | Subsidiaries of MHE | - | 234,601 | - | - |
| | Subsidiaries of HSC | - | 1,080,373 | - | - |
| | | 128,462,205 | 174,177,008 | 26,266,797 | 10,683,207 |
| | | 2018 | | | |
| <i>(in thousands of Korean won)</i> | | Sales of goods | Rendering of services | Royalty income | Others |
| Associates and joint venture | MANDO | 17,729,934 | 135,972,539 | 23,016,763 | 4,506,822 |
| | HL | 17,257,507 | 6,653,381 | 2,506,327 | 1,712,008 |
| | MHE | 102,157 | 3,650,707 | - | 1,136 |
| | HSC | 4,364 | 350,756 | - | - |
| Other related parties | Subsidiaries and joint ventures of MANDO | 120,703,054 | 118,900,909 | - | (78,111) |
| | Subsidiaries of HL | 58,074 | 1,309,497 | 671,119 | 285,157 |
| | Subsidiaries of MHE | - | 769,026 | - | - |
| | Subsidiaries of HSC | - | 890,312 | - | - |
| | | 155,855,090 | 268,497,127 | 26,194,209 | 6,427,012 |

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Significant purchase transactions with related parties are as follows:

| | | 2019 | | | |
|-------------------------------------|--|--------------------------|-------------------------|---|------------------|
| <i>(in thousands of Korean won)</i> | | Purchase of goods | Rendered Service | Acquisition of property, plant and equipment and intangible assets | Others |
| Associates and joint venture | MANDO | 11,637,203 | 393,489 | - | 2,123,959 |
| | HL | - | 27,700 | 353,380 | 733,680 |
| | JDT | 3,408,777 | - | - | - |
| | MHE | - | - | - | 23,817 |
| | HSC | 1,636,860 | - | - | - |
| Other related parties | Subsidiaries and joint ventures of MANDO | 23,177,095 | 74,554 | - | 1,103,937 |
| | Subsidiaries of HL | - | 3,630,887 | - | 1,394,249 |
| | | 39,859,935 | 4,126,630 | 353,380 | 5,379,642 |
| | | 2018 | | | |
| <i>(in thousands of Korean won)</i> | | Purchase of goods | Rendered Service | Acquisition of property, plant and equipment and intangible assets | Others |
| Associates and joint venture | MANDO | 14,212,407 | 726,859 | - | 1,529,628 |
| | HL | - | - | 24,701,700 | 550,843 |
| | MHE | 43,314,977 | - | - | 22,125 |
| | HSC | 387,038 | - | - | - |
| Other related parties | Subsidiaries and joint ventures of MANDO | 26,604,419 | 213,369 | - | 544,412 |
| | Subsidiaries of HL | - | 3,417,801 | 5,500,000 | 1,216,591 |
| | | 84,518,841 | 4,358,029 | 30,201,700 | 3,863,599 |

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Significant fund transactions with related parties are as follows:

| (in thousands of Korean won) | | 2019 | | | 2018 | | |
|------------------------------|--|-------------------|-----------------|-------------------|-------------------|-------------------|--------------------------------------|
| | | Dividend | Interest income | Interest expenses | Borrowings | Interest expenses | Repayment of borrowings ¹ |
| Associates and joint venture | MANDO | 7,101,625 | 51,946 | 32,578 | 2,840,650 | - | - |
| | HL | - | - | 4,795,800 | 36,087,056 | 5,211,000 | 8,000,000 |
| | JDT | 228,576 | - | - | 240,000 | - | - |
| | HSC | 604,800 | - | - | - | - | - |
| | MHE | 6,000,240 | 321 | - | 6,000,240 | - | - |
| Other related parties | Subsidiaries and joint ventures of MANDO | - | 2,466 | - | - | - | - |
| | Subsidiaries of HL | - | - | 7,115 | - | - | - |
| | | <u>13,935,241</u> | <u>54,733</u> | <u>4,835,493</u> | <u>45,167,946</u> | <u>5,211,000</u> | <u>8,000,000</u> |

¹ In 2018, JJH repaid the current portion of long-term borrowings from HL amounting to ₩ 8,000,000 thousand with short-term borrowings.

The outstanding balances of receivables arising from significant transactions with related parties are as follows:

| (in thousands of Korean won) | | December 31, 2019 | | | December 31, 2018 | |
|------------------------------|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| | | Trade receivables | Lease receivables | Other receivables | Trade receivables | Other receivables |
| Associates and joint venture | MANDO | 25,507,173 | 950,961 | 662,880 | 47,860,888 | 1,262,441 |
| | HL | 1,960,377 | - | 169,676 | 7,492,639 | 270,378 |
| | JDT | 825 | - | - | - | - |
| | MHE | 1,430,496 | 6,021 | - | 1,322,366 | - |
| | HSC | 18,266 | - | - | 13,875 | - |
| Other related parties | Subsidiaries and joint ventures of MANDO | 28,201,344 | 51,651 | - | 36,070,806 | 570,159 |
| | Subsidiaries of HL | 76,255 | - | - | 85,411 | - |
| | Subsidiaries of MHE | 35,060 | - | - | 174,871 | - |
| | Subsidiaries of HSC | 277,731 | - | - | 263,036 | - |
| | | <u>57,507,527</u> | <u>1,008,633</u> | <u>832,556</u> | <u>93,283,892</u> | <u>2,102,978</u> |

In 2019, the Group disposed of all the membership rights issued by HLC (2018: ₩ 3,955,140 thousand).

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The outstanding balances of payables arising from significant transactions with related parties are as follows:

| <i>(in thousands of Korean won)</i> | | December 31, 2019 | | | |
|-------------------------------------|--|--------------------------|--------------------------|-----------------------------|-----------------------|
| | | Trade payables | Lease liabilities | Borrowing and others | Other payables |
| Associates and joint venture | MANDO | 1,434,646 | 940,278 | - | 491,065 |
| | HL | - | - | 97,300,000 | 20,121,805 |
| | JDT | 301,296 | - | - | - |
| | MHE | - | - | - | - |
| | HSC | 176,433 | - | - | 199,653 |
| Other related parties | Subsidiaries and joint ventures of MANDO | 4,019,585 | - | - | 496,002 |
| | Subsidiaries of HL | 184,797 | 132,053 | - | 284,308 |
| | | <u>6,116,757</u> | <u>1,072,331</u> | <u>97,300,000</u> | <u>21,592,833</u> |

| <i>(in thousands of Korean won)</i> | | December 31, 2018 | | |
|-------------------------------------|--|--------------------------|-----------------------------|-----------------------|
| | | Trade payables | Borrowing and others | Other payables |
| Associates and joint venture | MANDO | 1,781,134 | - | 927,794 |
| | HL | - | 97,300,000 | 24,485,039 |
| | JDT | - | - | - |
| | MHE | 7,219,945 | - | - |
| | HSC | 88,185 | - | - |
| Other related parties | Subsidiaries and joint ventures of MANDO | 7,773,522 | - | 148,798 |
| | Subsidiaries of HL | 191,780 | - | 2,523,617 |
| | | <u>17,054,566</u> | <u>97,300,000</u> | <u>28,085,248</u> |

Key management refers to the directors (including non-executive) of the Group who have significant control and responsibilities on the Group's operations and business. Compensation for key management is as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|--------------------------------------|------------------|------------------|
| Short-term employee benefit expenses | 3,294,559 | 2,695,641 |
| Retirement benefits | 701,624 | 792,780 |
| | <u>3,996,183</u> | <u>3,488,421</u> |

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34. Changes in Accounting Policies

As explained in Note 2.2.1, the Group has adopted Korean IFRS 1116, retrospectively, from January 1, 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are, therefore, recognized in the consolidated statement of financial position on January 1, 2019.

(a) Adjustments recognized on adoption of Korean IFRS 1116 Lease

On adoption of Korean IFRS 1116, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of Korean IFRS 1017. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 2.67%~21.67%.

(in thousands of Korean won)

| | 2019 |
|--|-------------------|
| Operating lease commitments disclosed as at December 31, 2018 | 50,473,431 |
| Discounted using the lessee's incremental borrowing rate of at the date of initial application | 46,872,929 |
| Less: short-term leases not recognized as a liability | - |
| Less: low-value leases not recognized as a liability | (78,570) |
| Lease liability recognized as at January 1, 2019 | 46,794,359 |
| Of which are: | |
| Current lease liabilities | 12,841,829 |
| Non-current lease liabilities | 33,952,530 |
| | <u>46,794,359</u> |

The associated right-of-use assets for leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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a) Amounts recognized in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

| <i>(in thousands of Korean won)</i> | December 31, 2019 | January 1, 2019 |
|-------------------------------------|--------------------------|------------------------|
| Right-of-use assets | | |
| Properties | 38,476,535 | 47,464,991 |
| Vehicles ¹ | 2,203,662 | 802,447 |
| Furniture & fixture and vehicles | 3,663 | 8,844 |
| | <u>40,683,860</u> | <u>48,276,282</u> |

¹ Right-of-use assets arising from sublease, classified as a finance lease were eliminated.

| <i>(in thousands of Korean won)</i> | December 31, 2019 | January 1, 2019 |
|-------------------------------------|--------------------------|------------------------|
| Lease liabilities | | |
| Current | 15,438,759 | 12,841,829 |
| Non-current | 25,670,072 | 33,952,530 |
| | <u>41,108,831</u> | <u>46,794,359</u> |

| <i>(in thousands of Korean won)</i> | December 31, 2019 | January 1, 2019 |
|-------------------------------------|--------------------------|------------------------|
| Lease receivables | | |
| Current | 1,151,769 | 613,220 |
| Non-current | 22,202 | 516,082 |
| | <u>1,173,971</u> | <u>1,129,302</u> |

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b) Amounts recognized in the consolidated statement of profit or loss

The consolidated statement of profit or loss shows the following amounts relating to leases:

| <i>(in thousands of Korean won)</i> | 2019 |
|---|-------------------|
| Depreciation of right-of-use assets (included in cost of goods sold and administrative expenses) | |
| Properties | 12,583,734 |
| Vehicles | 1,269,593 |
| Furniture & fixture and vehicles | 5,532 |
| | <u>13,858,858</u> |
| Interest expense relating to lease liabilities (included in finance cost) | 1,508,724 |
| Interest income relating to net investment of sublease (included in finance income) | 65,722 |
| Gain on disposal of right-of-use assets | 76,480 |
| Expense relating to leases of low-value assets that are not short-term leases (included in administrative expenses) | 51,992 |

The total cash outflow for leases in 2019 was ₩ 13,622,335 thousand.

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

- right-of-use assets: increase by ₩ 48,276,282 thousand
- lease receivables: increase by ₩ 1,129,302 thousand
- other assets: decrease by ₩ 992,344 thousand
- lease liabilities: increase by ₩ 46,794,359 thousand
- provision: increase by ₩ 1,618,881 thousand

As at the date of initial application, there were adjustments on retained earnings due to changes in accounting policies.

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a) Impact on earnings per share

With the adoption of Korean IFRS 1116, earnings per share in 2019 decreased by ₩ 158.

b) Practical expedients applied

In applying Korean IFRS 1116 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous – there were no onerous contracts as at January 1, 2019
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019, as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying Korean IFRS 1017 and Interpretation 2104 *Determining whether an Arrangement contains a Lease*.

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35. Revenue from Contracts with Customers

The Group has recognized the following amounts relating to revenue in the statement of profit or loss:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|---|--------------------|--------------------|
| Revenue from contracts with customers | 756,028,830 | 861,324,609 |
| Revenue from other sources | | |
| Rental income | 1,456,039 | 1,648,041 |
| Share of profit of associates and joint venture | 40,880,290 | 23,575,633 |
| Total revenue | <u>798,365,159</u> | <u>886,548,283</u> |

35.1 Disaggregation of Revenue from Contracts with Customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following type of sales and geographical regions:

| <i>(in thousands of Korean won)</i> | 2019 | | | | |
|---------------------------------------|--------------------|-------------------|-------------------|-----------------------|----------------|
| | Merchandise | | | Finished goods | |
| | Korea | China | USA | Korea | USA |
| Segment revenue | 409,434,866 | 11,282,264 | 62,513,465 | 30,067,276 | 401,512 |
| Inter-segment revenue | (2,550,523) | (144,104) | (3,436,014) | (12,788,312) | (168,347) |
| Revenue from contracts with customers | <u>406,884,343</u> | <u>11,138,160</u> | <u>59,077,451</u> | <u>17,278,964</u> | <u>233,165</u> |
| Timing of revenue recognition | | | | | |
| At a point in time | 406,884,343 | 11,138,160 | 59,077,451 | 17,278,964 | 233,165 |
| Over time | - | - | - | - | - |

| <i>(in thousands of Korean won)</i> | 2019 | | | | | |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| | Distribution | | | IT | Others | |
| | Korea | China | USA | Korea | Korea | Total |
| Segment revenue | 104,180,262 | 50,204,356 | 25,790,104 | 30,957,635 | 52,682,853 | 777,514,593 |
| Inter-segment revenue | (160,313) | (177,116) | (149,256) | (51,928) | (1,859,851) | (21,485,764) |
| Revenue from contracts with customers | <u>104,019,949</u> | <u>50,027,240</u> | <u>25,640,848</u> | <u>30,905,707</u> | <u>50,823,003</u> | <u>756,028,830</u> |
| Timing of revenue recognition | | | | | | |
| At a point in time | - | - | - | 4,814,614 | 9,052,766 | 508,479,463 |
| Over time | 104,019,949 | 50,027,240 | 25,640,848 | 26,091,093 | 41,770,237 | 247,549,367 |

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| <i>(in thousands of Korean won)</i> | 2018 | | | | |
|---------------------------------------|--------------------|-------------------|-------------------|-----------------------|----------------|
| | Merchandise | | | Finished goods | |
| | Korea | China | USA | Korea | USA |
| Segment revenue | 450,412,260 | 14,342,711 | 97,871,936 | 25,919,450 | 925,910 |
| Inter-segment revenue | (11,360,455) | (210,010) | (206,396) | (13,154,967) | (291,676) |
| Revenue from contracts with customers | <u>439,051,805</u> | <u>14,132,701</u> | <u>97,665,540</u> | <u>12,764,483</u> | <u>634,233</u> |
| Timing of revenue recognition | | | | | |
| At a point in time | 439,051,805 | 14,132,701 | 97,665,540 | 12,764,483 | 634,233 |
| Over time | - | - | - | - | - |

| <i>(in thousands of Korean won)</i> | 2018 | | | | | |
|---------------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| | Distribution | | | IT | Others | |
| | Korea | China | USA | Korea | Korea | Total |
| Segment revenue | 141,957,846 | 56,056,412 | 20,855,288 | 31,511,968 | 49,541,834 | 889,395,615 |
| Inter-segment revenue | (662,581) | (85,037) | (140,984) | (82,119) | (1,876,782) | (28,071,007) |
| Revenue from contracts with customers | <u>141,295,266</u> | <u>55,971,375</u> | <u>20,714,304</u> | <u>31,429,849</u> | <u>47,665,053</u> | <u>861,324,609</u> |
| Timing of revenue recognition | | | | | | |
| At a point in time | - | - | - | 5,836,132 | 11,636,850 | 581,721,744 |
| Over time | 141,295,266 | 55,971,375 | 20,714,304 | 25,593,717 | 36,028,203 | 279,602,865 |

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36. Non-current Assets Held for sale and Discontinued Operations

36.1 OSPS and OSU

On December 1, 2018, URIMAN Corporation decided to sell OSPS and OSU, its subsidiaries, with the approval of the Board of Directors. The associated assets and liabilities related to OSPS and OSU are classified as held for sale, and the profit and loss on the related operations are presented as discontinued operations. The transaction was completed during the year in the form of a business transfer.

Details of assets and liabilities of disposal group classified as held for sale as at December 31, 2018, are as follows:

| <i>(in thousands of Korean won)</i> | December 31, 2018 |
|--|--------------------------|
| Assets associated with assets of disposal group held for sale | |
| Trade receivables | 2,567,633 |
| Inventories | 14,208,843 |
| Other current assets | 208,264 |
| Property, plant and equipment | 1,017,819 |
| | <u>18,002,559</u> |
| Liabilities associated with assets of disposal group held for sale | |
| Trade payables | 1,797,621 |
| | <u>1,797,621</u> |

Profit and loss from discontinued operation are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|--|--------------------|---------------------|
| Sales | 332,237 | 33,321,224 |
| Cost of sales | <u>(514,620)</u> | <u>(24,462,892)</u> |
| Gross profit (loss) | (182,383) | 8,858,332 |
| Selling and administrative expenses | <u>(1,310,949)</u> | <u>(17,256,784)</u> |
| Operating loss | (1,493,332) | (8,398,452) |
| Other expenses | <u>(226,848)</u> | <u>(4,129,866)</u> |
| Loss before income tax of discontinued operation | (1,720,179) | (12,528,318) |
| Income tax expense | - | 1,383,912 |
| Loss after income tax of discontinued operation | (1,720,179) | (11,144,406) |
| Gain on disposal of discontinued operation | <u>311,640</u> | <u>-</u> |
| Loss for the year from discontinued operation | <u>(1,408,540)</u> | <u>(11,144,406)</u> |

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As at January 15, 2019, the Group transferred its automotive parts business to Elliott Auto Supply Co., Inc.

Total disposal consideration from the business transfer and assets and liabilities of the transferred business are as follows:

| <i>(in thousands of Korean won)</i> | 2019 |
|--|-------------|
| Total disposal consideration | |
| Cash and cash equivalents | 14,962,706 |
| Other receivables | 1,706,700 |
| Assets of the transferred business | |
| Trade receivables | 2,720,461 |
| Inventories | 14,208,843 |
| Other current assets | 208,264 |
| Property, plant and equipment | 1,017,819 |
| Liabilities of the transferred business | |
| Trade payables | 1,797,621 |
| Gain on disposal of discontinued operation | 311,640 |

Cash flows from discontinued operations are as follows:

| <i>(in thousands of Korean won)</i> | 2019 | 2018 |
|--|------------------|----------------|
| Net cash inflow (outflow) from operating activities | (999,825) | 252,176 |
| Net cash outflow from investing activities | - | (532,056) |
| Net cash inflow from financing activities | - | 596,398 |
| Exchange gains on cash and cash equivalents | 6,733 | 5,120 |
| Net increase (decrease) in cash generated from discontinued operations | <u>(993,091)</u> | <u>321,638</u> |

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36.2 Halla MTIS Co., Ltd.

On December 12, 2018, the Group decided to sell Halla MTIS Co., Ltd., a subsidiary, with the approval of the Board of Directors. The profit and loss on the related operations are presented as discontinued operations. The transaction was completed in 2018.

Profit and loss from discontinued operation are as follows:

| <i>(in thousands of Korean won)</i> | 2018 |
|--|--------------------|
| Sales | 148,000 |
| Cost of sales | <u>(142,000)</u> |
| Gross profit | 6,000 |
| Selling and administrative expenses | <u>(2,060,652)</u> |
| Operating loss | (2,054,652) |
| Other income | 48 |
| Other expenses | (328) |
| Finance income | 418 |
| Finance costs | <u>(11,468)</u> |
| Loss before income tax of discontinued operation | <u>(2,065,983)</u> |
| Loss after income tax of discontinued operation | <u>(2,065,983)</u> |
| Loss for the year from discontinued operation | <u>(2,065,983)</u> |

Cash flows from discontinued operations are as follows:

| <i>(in thousands of Korean won)</i> | 2018 |
|---|------------------|
| Net cash outflow from operating activities | (602,645) |
| Net cash outflow from investing activities | (436,424) |
| Net cash inflow from financing activities | <u>520,000</u> |
| Net decrease in cash generated from discontinued operations | <u>(519,069)</u> |