

# **Orion Corporation and Subsidiaries**

**Consolidated Financial Statements**

**December 31, 2017**

**ORION Corporation and Subsidiaries**  
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**December 31, 2017**

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## Independent Auditors' Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of  
Orion Corporation

We have audited the accompanying consolidated financial statements of Orion Corporation and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at the December 31, 2017 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated financial statement of cash flows for the seven month period from June 1, 2017 to December 31, 2017, and note to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibilities***

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

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



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

***Opinion***

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows, for the seven-month period from June 1, 2017 to December 31, 2017 in accordance with the Korean IFRS.

***Emphasis of matter***

As a matter that does not affect the audit opinion, the users need to pay attention to the notes 1 and 38. As explained in Note 1, the Company is a newly established company, which was established on June 1, 2017, by spinning off the manufacturing and sales of confectionery of Orion Holdings Co., Ltd. (formerly Orion Co., Ltd.). As of July 7, 2017, it was listed on the KOSPI

***Other Matters***

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

March 22, 2018

Seoul, Korea

This report is effective as at March 22, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying 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.

**Orion Corporation and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2017**

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<i>(In thousands of Korean won)</i>	<b>Notes</b>		<b>2017</b>
<b>Assets</b>			
Property, plant and equipment	7,22	₩	1,672,772,360
Intangible assets	8		29,625,247
Goodwill	9		22,754,334
Investments in joint ventures	10,36		23,925,417
Long-term trade and other receivables	13,32,34		1,178,378
Long-term deposits	14,32,34		49,578
Defined benefit assets	23		188,536
Other non-current assets	11		47,344,352
Deferred income tax assets	33		2,704,353
<b>Total Non-current assets</b>			<u>1,800,542,555</u>
Inventories	12		150,686,985
Other current assets	11		22,511,276
Current tax assets	33		607,123
Trade and other receivables	13,32,34		131,312,188
Short-term deposits	14,32,34		50,731,500
Cash and cash equivalents	14,32,34		101,606,293
<b>Total Current assets</b>			<u>457,455,365</u>
<b>Total assets</b>		₩	<u>2,257,997,920</u>

**Orion Corporation and Subsidiaries**  
**Consolidated Statements of Financial Position**  
**December 31, 2017**

<i>(In thousands of Korean won)</i>	<b>Notes</b>	<b>2017</b>
<b>Equity</b>		
Capital stock	15	₩ 19,766,751
Capital surplus		598,135,705
Treasury shares	16	(604,361)
Other capital	17	614,741,969
Retained earnings	18	76,188,029
<b>Equity attributable to owners of the Parent</b>		<u>1,308,228,093</u>
<b>Non-controlling interest</b>	5	<u>36,676,349</u>
<b>Total equity</b>		<u>1,344,904,442</u>
<b>Liabilities</b>		
Long-term debts	22,32,34	329,446,063
Long-term trade and other payables	21,32,34,36	102,522
Deferred tax liabilities	33	60,567,010
Other non-current liabilities	25	3,368
<b>Total Non-current liabilities</b>		<u>390,118,963</u>
Current portion of long-term debts	22,32,34	165,854,506
Short-term borrowings	22,32,34	104,443,834
Trade and other payables	21,32,34,36	192,058,519
Derivative liabilities	24	260,928
Current income tax liabilities	33	17,265,318
Other current liabilities	25	43,091,410
<b>Total Current liabilities</b>		<u>522,974,515</u>
<b>Total liabilities</b>		<u>913,093,478</u>
<b>Total equity and liabilities</b>		<u>₩ 2,257,997,920</u>

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

**Orion Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2017**

*(In thousands of Korean won,  
except earnings per share)*

	<b>Notes</b>		<b>2017</b>
<b>Revenue</b>	27	₩	1,117,220,560
<b>Cost of sales</b>	27,31,36		(593,476,572)
<b>Gross profit</b>			<u>523,743,988</u>
Selling expenses	28,31		(341,344,567)
General and administrative expenses	28,31		(74,972,808)
<b>Operating profit</b>			<u>107,426,613</u>
Net other income	29		1,038,969
Net finance costs	30,32		(3,137,743)
Share of loss of joint ventures	10		(269,928)
<b>Profit before income tax</b>			<u>105,057,911</u>
Income tax expense	33		(28,377,639)
<b>Profit for the period</b>			<u>76,680,272</u>
<b>Other comprehensive income(loss):</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>			
Exchange differences on translating foreign operations			(9,670,455)
Share of other comprehensive income (loss) of joint ventures	10		(90,206)
<b>Items that will not be reclassified to profit or loss</b>			
Defined benefit plan actuarial gain(loss)	23,33		781,380
Share of Defined benefit plan actuarial gain(loss) of joint ventures	10		11,746
Income tax of other comprehensive income			(189,094)
<b>Other comprehensive income(loss) for the period, net of tax</b>			<u>(9,156,629)</u>
<b>Total comprehensive income for the period</b>		₩	<u>67,523,643</u>

**Orion Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2017**

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*(In thousands of Korean won,  
except earnings per share)*

	Notes	2017
<b>Profit (loss) attributable to:</b>		
Owners of the Parent		75,583,997
Non-controlling interests		1,096,275
<b>Profit for the period</b>		<u>76,680,272</u>
<b>Total comprehensive income attributable to</b>		
Owners of the Parent		66,478,960
Non-controlling interests		1,044,683
<b>Total comprehensive income for the period</b>		₩ <u>67,523,643</u>
<b>Earnings per share: (in Korean won)</b>	19	
Basic earnings per share		1,912
Diluted earnings per share		1,912

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



**Orion Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Equity**  
**Years Ended December 31, 2017**

<i>(In thousands of Korean won)</i>	<u>Capital Stock</u>		<u>Capital surplus</u>		<u>Treasury shares</u>		<u>Other capital</u>		<u>Retained earnings</u>		<u>Non-controlling interests</u>		<u>Total equity</u>	
<b>Balance at June 1, 2017</b>	₩	19,766,751	₩	598,135,705	₩	-	₩	624,451,038	₩	-	₩	35,631,666	₩	1,277,985,160
<b>Comprehensive income:</b>														
Profit for the period		-		-		-		-		75,583,997		1,096,275		76,680,272
<b>Other comprehensive income:</b>														
Exchange differences on translating foreign operations		-		-		-		(9,618,863)		-		(51,592)		(9,670,455)
Share of other comprehensive income of joint ventures		-		-		-		(90,206)		-		-		(90,206)
Share of defined benefit plan actuarial gain(loss) of joint ventures		-		-		-		-		11,746		-		11,746
Remeasurements of net defined benefit liability		-		-		-		-		592,286		-		592,286
<b>Total comprehensive income for the period</b>		-		-		-		(9,709,069)		76,188,029		1,044,683		67,523,643
<b>Total transactions with owners of the Company, recognized directly in equity</b>														
Purchase of treasury shares		-		-		(604,361)		-		-		-		(604,361)
<b>Total transactions with owners of the Company, recognized directly in equity</b>		-		-		(604,361)		-		-		-		(604,361)
<b>Balance at December 31, 2017</b>	₩	19,766,751	₩	598,135,705	₩	(604,361)	₩	614,741,969	₩	76,188,029	₩	36,676,349	₩	1,344,904,442

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

**Orion Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2017**

(In thousands of Korean won)

	<u>2017</u>
<b>Cash flows from operating activities</b>	
<b>Profit for the period</b>	₩ 76,680,272
<b>Adjustments for:</b>	
Retirement benefits	6,696,727
Depreciation	64,189,623
Amortization	1,613,210
Loss on sale of trade receivables	589,365
Loss on sale of property, plant and equipment	2,019,351
Valuation loss on derivatives	619,645
Foreign currency translation loss	3,374,142
Interest expense	11,590,163
Income tax expense	28,377,639
Share of loss (gain) of joint ventures	269,928
Other expenses	1,222,811
Reversal of bad debt of trade receivables	(169,418)
Reversal of other bad debt allowance	(42,864)
Gain on sale of property, plant and equipment	(6,281,382)
Reversal of Impairment losses on intangible assets	(41,089)
Gain on valuation of derivatives	(2,491)
Foreign currency translation gain	(6,226,756)
Interest income	(4,361,052)
Other income	(6,259)
<b>Subtotal</b>	<u>103,431,293</u>
<b>Changes in:</b>	
Trade receivables	(4,265,943)
Other receivables	11,027,823
Other current assets	5,989,788
Inventories	(53,031,226)
Other non-current assets	1,615,052
Trade payables	20,231,311
Other payables	37,698,612
Other current liabilities	19,230,968
Other non-current liabilities	941,251
Plan assets	(6,065,873)
Payment of defined benefit obligations	(5,263,446)
<b>Subtotal</b>	<u>28,108,317</u>
<b>Interest received</b>	4,403,700
<b>Interest paid</b>	(15,587,832)
<b>Income tax paid</b>	(3,793,930)
<b>Net cash inflow from operating activities</b>	<u>193,241,820</u>

**Orion Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2017**

(In thousands of Korean won)

	<u>2017</u>
<b>Cash flows from investing activities</b>	
Proceeds from sale of available-for-sale financial assets	₩ 1,070
Proceeds from sale of property, plant and equipment	14,832,483
Proceeds from sale of intangible assets	790,500
Decrease in rental deposits	2,126,681
Proceeds from disposal of non-current assets held for sales	1,907,944
Other cash inflows from investing activities	1,422,041
Decrease in financial deposits	63,654,782
Acquisition of available-for-sale financial assets	(1,155)
Acquisition of property, plant and equipment	(89,777,021)
Acquisition of intangible assets	(1,882,356)
Increase in rental deposits	(1,317,102)
Acquisition of joint ventures	(8,795,377)
<b>Net cash outflow from investing activities</b>	<u>(17,037,510)</u>
<b>Cash flows from financing activities</b>	
Increase in short-term borrowings	262,713,154
Increase in long-term borrowings	99,707,360
Increase in security deposits	80,000
Redemption of short-term borrowings	(289,020,420)
Redemption of current portion of long-term borrowings	(227,763,181)
Decrease in security deposits	(391,660)
Acquisition of treasury shares	(604,361)
Other cash outflows from financing activities	(10,102)
<b>Net cash outflow from financing activities</b>	<u>(155,289,210)</u>
<b>Effect of exchange rate fluctuations on cash held, and others</b>	<u>(2,603,564)</u>
<b>Net increase(decrease) in cash and cash equivalents</b>	18,311,536
<b>Cash and cash equivalents at the beginning of the period</b>	<u>83,294,757</u>
<b>Cash and cash equivalents at the end of the period</b>	<u>101,606,293</u>

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

**Orion Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2017**

**1. General Information**

Description of the Controlling Company

Orion Corporation ("the Company") was established on June 1, 2017, based on the Orion Holdings Co.'s resolution of the general meeting of shareholders on March 31, 2017, by splitting the manufacturing and sales of confectionery of Orion Holdings Co. and listed on the Korea Exchange on July 7, 2017.

The Company is manufacturing and selling various kinds of confectionery with its headquarters in Baekbumro, Yongsan-gu, Seoul, and a factory in Iksan, Jeollabuk-do, and others. As of December 31, 2017, the Company's capital stock is ₩ 19,767 million. Major shareholders of the Company are Orion Holdings Co., Ltd. (37.37%) and six other related parties (7.97%).

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (together referred to as "the Group"), and the Group's interests in joint ventures.

The Company and its consolidated subsidiaries as at December 31, 2017 are as follows:

Name	Location	Immediate controlling party	2017 Percentage of ownership		
			The Company	Subsidiary	Total
Orion Corporation	Korea	The Ultimate Parent Company	-	-	-
PAN Orion Corp. Limited.	Hong Kong	Orion Corporation	95.15%	-	95.15%
Orion International Euro LLC.	Russia	Orion Corporation	100.00%	-	100.0%
Orion Food VINA Co., Ltd.	Vietnam	Orion Corporation	100.00%	-	100.0%
PT.Orion Food Indonesia	Indonesia	Orion Corporation	83.33%	16.67%	100.0%
Orion Food Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food (Shanghai) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food Guangzhou Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Food (Shen Yang) Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion (Bei Tun) Agro Processing Co., Ltd.	China	PAN ORION Corp. Ltd.	-	100.00%	100.0%
Orion Agro BeiTun Co. Ltd	China	Orion (Bei Tun) Agro Processing Co., Ltd.	-	100.00%	100.0%
Orion Agro Co., Ltd.	China	Orion Food Co., Ltd.	-	100.00%	100.0%

**Orion Corporation and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
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Orion Agro DuoLun Co., Ltd.	China	Orion Food Co., Ltd	-	100.00%	100.0%
STELLA WAY LIMITED	Hong Kong	Orion Food Co., Ltd	-	100.00%	100.0%
LANGFANG IPAK Co., Ltd. <sup>1</sup>	China	Orion Food Co., Ltd	-	100.00%	100.0%

<sup>1</sup> In 2017, LANGFANG IPAK Co., Ltd was sold to Orion Food Co., Ltd by STELLA WAY LIMITED.

Financial information of the Company and its consolidated subsidiaries is summarized as follows:

(In millions of Korean won)

Name	Main business	2017					
		Total assets	Total liabilities	Total equity	Sales	Net income (loss)	Comprehensive income (loss)
Orion Corporation	Manufacturing and selling confectioneries	₩ 1,138,455	₩ 486,341	₩ 652,114	₩ 399,270	₩ 34,264	₩ 34,816
PAN ORION Corp. Limited	Holding company	290,601	189,220	101,381	-	(4,223)	(4,223)
Orion International Euro LLC	Manufacturing and selling confectioneries	72,475	15,644	56,831	46,910	4,648	4,648
Orion Food VINA Co., Ltd.	Manufacturing and selling confectioneries	183,136	35,594	147,542	128,670	14,400	14,400
PT. Orion Food Indonesia	Selling confectioneries	135	17	118	-	(52)	(52)
Orion Food Co., Ltd.	Manufacturing and selling confectionerie	662,291	162,989	499,302	554,081	2,346	2,346
Orion Food(Shanghai) Co., Ltd.	Manufacturing confectioneries	243,359	26,536	216,823	99,944	13,058	13,058
Orion Food Guangzhou Co., Ltd.	Manufacturing confectioneries	229,485	97,164	132,321	71,658	10,412	10,412
Orion Food (Shen Yang) Co., Ltd.	Manufacturing confectioneries	175,166	83,249	91,917	42,474	4,805	4,805
Orion(Bei Tun) Agro Processing Co., Ltd.	Processing the agricultural products	25,740	8,449	17,291	3,668	(1,044)	(1,044)
Orion Agro BeiTun Co. Ltd	Harvesting and selling the agricultural products	1,294	3,845	(2,551)	2,883	(1,356)	(1,356)

**Orion Corporation and Subsidiaries**  
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Orion Agro Co., Ltd.	Manufacturing food and beverages	15,245	573	14,672	5,474	1,293	1,293
Orion Agro DuoLun Co., Ltd.	Processing the agricultural products	2,361	88	2,273	3,047	338	338
STELLA WAY LIMITED	Advising on investment	25,574	-	25,574	-	(53)	(53)
LANGFANG IPAK Co., Ltd.	Manufacturing pulp and paper	20,374	1,950	18,424	10,269	(320)	(320)
Total		₩ 3,085,691	₩ 1,111,659	₩ 1,974,032	₩ 1,368,348	₩ 78,516	₩ 79,068

The reporting dates of the consolidated financial statements of the Controlling Company and the subsidiaries are December 31, 2017. Above summarized financial information is based on the separate financial statements

# Orion Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2017

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## 2. Basis of Preparation

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

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Group's financial position, financial performance or cash flows, is not presented in the accompanying 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 the consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.3.

The consolidated financial statements were authorized to be issued by the Board of Directors on February 13, 2018, which will be submitted for approval to the shareholders' meeting to be held on March 30, 2018.

### 2.1 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- liabilities for defined benefit plans are recognized at the net of the total present value of defined benefit obligations less the fair value of plan assets.

### 2.2 Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Group operates. The consolidated financial statements are presented in Korean won, which is the Parent Company's functional and presentation currency.

### 2.3 Use of estimates and judgments

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

# Orion Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2017

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#### *(a) Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 9 : Goodwill
- Note 10 : Investments in Joint ventures
- Note 13 : Trade and other receivables
- Note 23 : Measurement of defined benefit obligations for employees
- Note 25 : Estimation of provision for warranty
- Note 33 : Deferred tax asset(liability)
- Note 35 : Financial commitments and contingencies

Income tax on the Group's taxable income is calculated by applying the tax and taxation decisions of various countries, so there is uncertainty in estimating the final tax effect(Note 33). If certain portion of the taxable income is not used for investments, increase in wages, or dividends, the Group is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected. As the Group's income tax is dependent on the investments, increase in wages and dividends, there exists uncertainty with regard to measuring the final tax effects.

#### *(b) Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and report directly to the CFO.

When measuring the fair value of an asset of a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

- Note 32 : Financial Instruments by categories and Financial Risk Management



# Orion Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

### December 31, 2017

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### 3. Changes in accounting policies

#### *(a) New standards and interpretations not yet adopted by the Group*

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

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

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

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

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

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

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

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

According to these enactments, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration. These enactments will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Group does not expect the enactments to have a significant impact on the financial statements.

#### - Enactment of Korean IFRS 1116 Leases

Korean IFRS 1116 Leases issued on May 22, 2017 is effective for annual periods beginning on or after January 1,

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2019, with early adoption permitted. This standard will replace Korean IFRS 1017 Leases, Interpretation 2104 determining whether an Arrangement contains a Lease, Interpretation 2015 Operating Leases-Incentives, and Interpretation 2027 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

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

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

A lessee shall apply this standard to its leases either:

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

The Group has not yet elected the application method.

A lessor shall apply this standard to its leases as follow:

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116; however, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

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

- Korean IFRS 1109 Financial Instruments

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

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

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Korean IFRS 1109 *Financial Instruments* requires all financial assets to be classified and measured on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. A new impairment model, an expected credit loss model, is introduced and any subsequent changes in expected credit losses will be recognized in profit or loss. Also, hedge accounting rules amended to extend the hedging relationship, which consists only of eligible hedging instruments and hedged items, qualifies for hedge accounting.

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

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1109. The assessment was performed based on available information as at December 31, 2017, and the adoption of these amendments did not have any material impact on the consolidated financial statements. The Group plans to perform more detailed analyses on the financial effects based on additional information in the future; therefore, the results of the assessment may change due to additional information that the Group may obtain after the assessment.

#### (a) Classification and Measurement of Financial Assets

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

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

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

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

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss. As at December 31, 2017, the Group owns loans and receivables of ₩ 284,878million.

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

#### (b) Classification and Measurement of Financial Liabilities

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

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result profit or loss from fair value movements may decrease. As at December 31, 2017, total financial liabilities is ₩ 783,419 million of which ₩ 261 million are designated at fair value through profit or loss.

#### (c) Impairment: Financial Assets and Contract Assets

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

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

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

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

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

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Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss. As at December 31, 2017, the Group owns loans and receivables carried at amortized cost of ₩ 284,878million and the Group recognized loss allowance of ₩ 2,132 million for these assets.

#### *(d) Hedge Accounting*

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

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

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

#### - Korean IFRS 1115 Revenue from Contracts with Customers

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

The Group must apply Korean IFRS 1115 Revenue from Contracts with Customers within annual reporting periods beginning on or after January 1, 2018, and will apply the standard retrospectively to prior reporting period presented in accordance with Korean IFRS 1008 Accounting Policies, Changes in Accounting Estimates and Errors and apply simplified transition method with restatement for completed contracts and other as at June 1, 2017.

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

- Identify contracts with customers
- Identify the separate performance obligation

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

The Group performed an impact assessment to identify potential financial effects of applying Korean IFRS 1115. The assessment was performed based on available information as at December 31, 2017, and the results of the assessment are explained as below. The results of the assessment as at December 31, 2017 may change due to additional information that the Group may obtain after the assessment.

According to Korean IFRS 1115, the Company shall account for consideration payable to a customer as a reduction of the transaction price and therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the entity. The Group has recognized the part of payment to the customer as expenses in accordance with Korean IFRS 1118. As the Group applies Korean IFRS 1115, the Group would account for consideration payable to a customer as a reduction of the transaction price if the payment to the customer is not in exchange for a distinct good or service. The Group does not expect to have a significant impact on the consolidated financial statements due to the implementation of Korean IFRS 1115.

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#### 4. Significant Accounting Policies

The significant accounting policies applied by the Group in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all years presented in Orion holdings' consolidated financial statements before spin-off, except for the change in accounting policy as explained in Note 3.

##### 4.1 Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

##### 4.2 Basis of consolidation

###### *(a) Business combination*

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or business under common control.

The consideration transferred in the acquisition is generally measured at fair value, as are identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

###### *(b) Non-controlling Interests("NCI")*

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in subsidiary that do not result in loss of control are accounted for as equity transaction.

###### *(c) Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has ability to affect those returns through

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its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

#### *(d) Loss of control*

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### *(e) Interests in equity-method Investees*

The Group's interests in equity-method investees comprise interest in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, Group's share of the profit or loss and OCI of equity-method investees and the dividends from equity-method investees are adjusted from the carrying amount of the investment, until the date on which significant influence ceases.

#### *(f) Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way unrealized gains, but only to the extent that there is no evidence of impairment

#### *(g) Business combination under common control*

The assets and liabilities acquired under business combinations under common control are recognized at the carrying amounts recognized previously in the consolidated financial statements of the ultimate parent. The difference between consideration transferred and carrying amounts of net assets acquired is recognized in other capital..

### **4.3 Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

### **4.4 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

### **4.5 Inventories**

The cost of inventories is determined by the specific identification method for materials-in-transit and by the weighted average method for all other inventories. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The allocation of fixed manufacturing overheads which are included in the costs of products and work-in-process is based on the normal capacity of the production facilities.



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The carrying amount of inventories is recognized as cost of sales during the period when revenue from the sale of related goods is recognized.

Inventories are stated at the lower of cost and net realizable value. Amounts of inventory written down to net realizable value due to losses occurring in the normal course of business are recognized as cost of sales and are deducted as an allowance from the carrying value of inventories.

The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense (cost of sales) in the period in which the reversal occurs.

#### 4.6 Non-derivative financial assets

The Group recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. The Group recognizes financial assets in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Upon initial recognition, non-derivative financial assets are measured at their 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 asset's acquisition or issuance.

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

A financial asset is classified as financial assets at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

##### *(b) Held-to-maturity investments*

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Group has the positive intention and ability to hold to maturity, are classified as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method.

##### *(c) Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

##### *(d) Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

##### *(e) De-recognition of financial assets*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group should determine whether the Group has retained control or not

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The Group derecognizes the financial asset if the Group has not retained control and if the Group has retained control, the Group continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

If the Group retains substantially all the risks and rewards of ownership of the transferred financial assets, the Group continues to recognize the transferred financial assets and recognizes the consideration received as financial liabilities.

#### *(f) Offsetting between financial assets and financial liabilities*

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

#### **4.7 Derivative financial instruments**

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

#### **4.8 Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

The objective evidences that a financial asset is impaired are below;

- The significant financial difficulty of the issuer or obligor.
- A breach of contract such as a delinquency in interest or principal payments
- The disappearance of an active market for that financial asset because of financial difficulties

Besides instances above, in case of a financial asset classified as an available-for sale, a significant or prolonged decline in fair value below its initial cost is considered as an objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses should be measured and recognized.

#### *(a) Financial assets measured at amortized cost*

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Group can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

#### *(b) Financial assets carried at cost*

The amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of

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return for a similar financial asset. Such impairment losses are recognized in profit and loss and cannot be reversed.

*(c) Available-for-sale financial assets*

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss (less the impairment amount which had been already recognized in profit or loss) that had been recognized in other comprehensive income is reclassified from equity to profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale cannot be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

**4.9 Property, plant and equipment**

Property, plant and equipment are initially measured at cost. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent to initial recognition, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The costs of the replaced part are recognized in the carrying amount of property, plant and equipment or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized.

The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Property, plant and equipment, except for land, are depreciated on a straight-line basis over estimated useful lives that appropriately reflect the pattern in which the asset's future economic benefits are expected to be consumed.

The estimated useful lives of the Group's assets are as follows:

<b>Asset</b>	<b>Useful lives (years)</b>
Buildings	15 ~ 55
Structures	10 ~ 30
Machinery	5 ~ 17
Other	4 ~ 10, Indefinite

A component that is significant compared to the total cost of property, plant and equipment is depreciated over its separate useful life.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in profit or loss.

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Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

**4.10 Borrowing costs**

The Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Group immediately recognizes other borrowing costs as an expense. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

**4.11 Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which rights to use facility are expected to be available for use, this intangible asset is determined as having indefinite useful lives and not amortized.

<u>Asset</u>	<u>Useful lives (years)</u>
Industrial property rights	5~10
Rights to use facility	Indefinite
Other	5

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

*(a) Research and development*

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient

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resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

#### *(b) Subsequent expenditures*

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

#### **4.12 Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

The Group estimates the recoverable amount of an individual asset, if it is impossible to measure the individual recoverable amount of an asset, then the Group estimates the recoverable amount of cash-generating unit ("CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### **4.13 Leases**

Lease is classified as a finance lease if the lessor transfers substantially all of the risks and rewards incidental to ownership of a leased asset to the group. Lease is classified as an operating lease if the lessor does not transfer substantially all of the risk and rewards of ownership.

Payments made under operating leases (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the period of the lease.

#### **4.14 Non-derivative financial liabilities**

The Group classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Group recognizes financial liabilities in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the financial liability.

#### *(a) Financial liabilities at fair value through profit or loss*

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Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

#### *(b) Other financial liabilities*

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Group derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (that is, when the obligation specified in the contract is discharged, cancelled or expires).

#### **4.15 Employee benefits**

##### *(a) Short-term employee benefits*

Short-term employee benefits are employee benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. When an employee has rendered service to the Group during an accounting period, the Group recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

##### *(b) Retirement benefits: defined contribution plans*

When an employee has rendered service to the Group during a period, the Group recognizes the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, the Group recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

##### *(c) Retirement benefits: defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

The calculation of defined benefit liability is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the assets ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (assets) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (assets), taking into account any change in the net defined benefit liability (assets) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

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When the benefits of plans are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailments is recognized immediately in profit or loss. The Group recognized gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### 4.16 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

#### 4.17 Foreign currencies

##### *(a) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the reporting date's exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss shall be recognized in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss.

##### *(b) Foreign operations*

If the presentation currency of the Group is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

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#### 4.18 Equity capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

When the Group repurchases its share capital, the amount of the consideration paid is recognized as a deduction from equity and classified as treasury shares. The profits or losses from the purchase, disposal, reissue, or retirement of treasury shares are not recognized as current profit or loss. If the Group acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

#### 4.19 Share-based payment transactions

The Company has granted shares or share options to its employees and other parties. For equity-settled, share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity as a capital adjustment at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. If the fair value of the equity instruments cannot be estimated reliably at the measurement date, the Company measures them at their intrinsic value and recognizes the goods or services received based on the number of equity instruments that ultimately vest.

For cash-settled share-based payment transactions, the Company measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Company remeasures the fair value of the liability at each reporting date and at the date of settlement, with changes in fair value recognized in profit or loss for the period

#### 4.20 Revenue

Revenue from the sale of goods, rendering of services or use of the Group assets is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, and are recognized as a reduction of revenue. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

#### 4.21 Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.



# Orion Corporation and Subsidiaries

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#### 4.22 Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

##### *(a) Current tax*

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the year since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit (tax loss) of future periods, and non-taxable or non-deductible items from the accounting profit.

##### *(b) Deferred tax*

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures except to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. And the Group reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

#### 4.23 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

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**5. Non-Controlling Interests**

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interests, before any intra-group eliminations.

Major consolidated subsidiaries are summarized as follows:

<b>Subsidiary</b>	<b>Location</b>	<b>Non-controlling interests percentage</b>
		<b>2017</b>
PAN Orion Corp. Limited	Hong Kong	4.85%

Cumulative non-controlling interests and dividends paid to non-controlling interests:

*(In thousands of Korean won)*

<b>Subsidiary</b>	<b>Profit allocated to non-controlling interests</b>	<b>Cumulative non-controlling interests</b>	<b>Dividends paid to non-controlling interests</b>
PAN Orion Corp. Limited	₩ 1,096,275	₩ 36,676,349	₩ -

Financial position and financial performance:

*(In thousands of Korean won)*

<b>Subsidiary</b>	<b>PAN Orion Corp. Limited</b>	<b>Orion Food Co., Ltd.</b>	<b>Orion Food(Shanghai) Co., Ltd.</b>	<b>Orion Food Guangzhou Co., Ltd.</b>	<b>Orion Food (Shen Yang) Co., Ltd.</b>
Current assets	₩ 2,727,460	₩ 249,681,143	₩ 79,037,114	₩ 22,176,137	₩ 14,998,959
Non-current assets	287,873,149	412,609,918	164,322,045	207,308,577	160,167,102
Current liabilities	189,219,327	144,410,371	18,423,287	89,436,596	79,569,699
Non-current liabilities	-	18,578,628	8,112,833	7,727,394	3,679,565
Revenue	-	554,081,045	99,943,836	71,658,285	42,474,306

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Profit(loss)	(4,223,003)	2,345,598	13,057,573	10,411,914	4,805,431
Comprehensive income(expense)	(4,223,003)	2,345,598	13,057,573	10,411,914	4,805,431

The company owns 95.15% shares of PAN Orion Corp. Ltd. Pan Orion Corp. Ltd owns 100% shares of 10 companies including Orion Food Co., Ltd. In addition to the above significant subsidiaries, Orion(Bei Tun) Agro Processing Co., Ltd and other 5 companies are not indicated because their non-controlling interests are not material.

Cash flow:

*(In thousands of Korean won)*

<b>Subsidiary</b>	<b>PAN Orion Corp. Limited</b>	<b>Orion Food Co., Ltd.</b>	<b>Orion Food Food(Shanghai) Co., Ltd.</b>	<b>Orion Food Guangzhou Co., Ltd.</b>	<b>Orion Food (Shen Yang) Co., Ltd.</b>
Cash flows from operating activities	₩ (4,884,558)	₩ 53,443,695	₩ 12,970,961	₩ 13,584,392	₩ 1,951,100
Cash flows from investing activities	-	10,601,654	(11,488,726)	(7,536,096)	(319,966)
Cash flows from financing activities	6,979,100	(62,555,208)	(5,033,902)	(6,081,490)	(2,500,010)
Effect of exchange rate fluctuations on cash held	(162,433)	676,999	10,497	38,805	(15,131)
Net increase (decrease) in cash and cash equivalents	1,932,109	2,167,140	(3,541,170)	5,611	(884,007)

Summarized financial information of each company is based on its separate financial statements.

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**6. Operating Segments**

The Group has a confectionaries segment which is the Group's strategic business unit. The Group's CEO reviews internal management reports on at least a quarterly basis.

Segment results for the years ended December 31, 2017 are as follows:

*(In thousands of Korean won)*

	<b>2017</b>		
	<b>Confectioneries</b>	<b>Elimination</b>	<b>Consolidated Total</b>
Total segment sales	₩ 1,368,347,885	₩ (251,127,326)	₩ 1,117,220,559
Less: Inter segment sales	(251,127,326)	251,127,326	-
External sales	1,117,220,559	-	1,117,220,559
Depreciation	65,888,405	(85,572)	65,802,833
Profit(loss) for the year	110,650,414	(3,223,801)	107,426,613

Segment assets and liabilities as at December 31, 2017 are as follows:

*(In thousands of Korean won)*

	<b>2017</b>		
	<b>Confectioneries</b>	<b>Elimination</b>	<b>Consolidated Total</b>
Total assets	₩ 3,085,482,644	₩ (827,484,724)	₩ 2,257,997,920
Total liabilities	1,111,450,166	(198,356,688)	913,093,478
Investments in joint ventures	23,925,417	-	23,925,417
Increase of non current assets	12,956,498	1,510,742	14,467,240

The Group analyses and categorizes its revenue and non-financial assets according to geographical locations. The information on revenue from each segment is specified based on the regions where the related revenue is earned and the information on non-financial assets from each segment is based on where the listed assets are located.

Information on regional sales for the years ended December 31, 2017 is as follows:

*(In thousands of Korean won)*

	<b>2017</b>			
	<b>Domestic</b>	<b>China</b>	<b>Others</b>	<b>Total</b>
Regional sales	₩ 391,563,673	₩ 553,142,652	₩ 172,514,234	₩ 1,117,220,559

Information on regional non-current assets for the years ended December 31, 2017 is as follows:

*(In thousands of Korean won)*

	<b>2017</b>
Domestic	₩ 688,303,758
China	936,672,594
Other	148,879,560
Total	₩ 1,773,855,912

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Financial assets, goodwill and deferred tax assets have been excluded from non-current assets above.

The detailed information on revenues of the Group for the years ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>		<u><b>2017</b></u>
Finished goods	₩	1,107,631,996
Merchandise		2,673,671
Others		<u>6,914,892</u>
Total	₩	<u><b>1,117,220,559</b></u>

There is no main customer who contributes more than 10% of the Group's revenues for the years ended December 31, 2017.

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**7. Property, Plant and Equipment**

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

<i>(In thousands of Korean won)</i>	<u>Land</u>	<u>Buildings</u>	<u>Structures</u>	<u>Machinery</u>	<u>Others</u>	<u>Construction in-progress</u>	<u>Total</u>
<b>Acquisition Cost</b>							
Balance at June 1, 2017	₩ 206,500,778	₩ 663,459,853	₩ 17,992,111	₩ 1,286,793,676	₩ 150,270,877	₩ 56,784,310	₩ 2,381,801,605
Additions	1,307,916	2,532,030	210,800	7,283,243	2,069,712	83,997,091	97,400,792
Disposals	(5,454,116)	(3,303,219)	(24,954)	(4,393,951)	(7,911,593)	-	(21,087,833)
Others <sup>1</sup>	1,729,175	18,769,079	27,148	34,246,722	608,236	(74,378,979)	(18,998,619)
Transferred to asset held for sale	-	-	-	(2,748,868)	-	-	(2,748,868)
Balance at December 31, 2017	₩ <u>204,083,753</u>	₩ <u>681,457,743</u>	₩ <u>18,205,105</u>	₩ <u>1,321,180,822</u>	₩ <u>145,037,232</u>	₩ <u>66,402,422</u>	₩ <u>2,436,367,077</u>
<b>Accumulated depreciation and impairment</b>							
Balance at June 1, 2017	₩ -	₩ (104,425,370)	₩ (11,199,110)	₩ (516,206,044)	₩ (84,209,035)	₩ -	₩ (716,039,559)
Depreciation	-	(8,829,494)	(479,974)	(47,132,692)	(7,747,464)	-	(64,189,624)
Disposals	-	1,518,132	22,211	2,942,795	6,147,241	-	10,630,379
Others <sup>1</sup>	-	522,011	114,963	3,979,657	613,614	-	5,230,245
Transferred to asset held for sale	-	-	-	773,842	-	-	773,842
Balance at December 31, 2017	₩ <u>-</u>	₩ <u>(111,214,721)</u>	₩ <u>(11,541,910)</u>	₩ <u>(555,642,442)</u>	₩ <u>(85,195,644)</u>	₩ <u>-</u>	₩ <u>(763,594,717)</u>
<b>Book amount</b>							
Balance at June 1, 2017	₩ <u>206,500,778</u>	₩ <u>559,034,483</u>	₩ <u>6,793,001</u>	₩ <u>770,587,632</u>	₩ <u>66,061,842</u>	₩ <u>56,784,310</u>	₩ <u>1,665,762,046</u>
Balance at December 31, 2017	₩ <u>204,083,753</u>	₩ <u>570,243,022</u>	₩ <u>6,663,195</u>	₩ <u>765,538,380</u>	₩ <u>59,841,587</u>	₩ <u>66,402,423</u>	₩ <u>1,672,772,360</u>

<sup>1</sup> Fluctuations due to foreign currency translation of foreign operations are included in others.

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The Group has made purchase agreements with respect to buildings, machinery and equipment and It is expected to spend ₩ 46,058 million in the future.

Borrowing costs of ₩ 8,746 thousand in relation to the completion of construction, were capitalized as part of the cost of qualifying assets for the year ended December 31, 2017. The capitalization rates were 2.99% for the year ended December 31, 2017.

There is leasehold rights of ₩ 50 million relating deposits received on the group's property, especially the building.

As at December 31, 2017, the Group has fire and other insurance coverage from Hyundai Marine & Fire Insurance Co., Ltd and others of up to ₩1,856,003 million on the Group's inventories, property, plant and equipment against fire and others.

In addition, as at December 31, 2017, the Group maintains insurance policies covering loss and liability arising from products, gas accidents, directors' and officers' liability and automobile accidents.

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**8. Intangible Assets**

Changes in intangible assets for the year ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<b>Rights to use facility</b>	<b>Industrial property rights</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>Acquisition Cost</b>				
Balance at June 1, 2017	₩ 19,058,758	₩ 19,189,821	₩ 12,219,109	₩ 50,467,688
Additions	33,463	562,909	1,348,950	1,945,322
Disposals	(822,315)	-	-	(822,315)
Others <sup>1</sup>	(7,712)	5,657	(32,338)	(34,393)
Balance at December 31, 2017	₩ 18,262,194	₩ 19,758,387	₩ 13,535,721	₩ 51,556,302
<b>Accumulated amortization and impairment</b>				
Balance at June 1, 2017	₩ (3,621,727)	₩ (11,694,332)	₩ (5,134,390)	₩ (20,450,449)
Amortization	-	(837,510)	(775,700)	(1,613,210)
Reversal of Impairment	41,089	-	-	41,089
Disposals	36,711	-	-	36,711
Others <sup>1</sup>	-	(5,657)	60,461	54,804
Balance at December 31, 2017	₩ (3,543,927)	₩ (12,537,499)	₩ (5,849,629)	₩ (21,931,055)
<b>Book amount</b>				
Balance at June 1, 2017	₩ 15,437,031	₩ 7,495,489	₩ 7,084,719	₩ 30,017,239
Balance at December 31, 2017	₩ 14,718,267	₩ 7,220,888	₩ 7,686,092	₩ 29,625,247

Others mainly include fluctuation due to foreign currency translation of foreign operations.

The Group has made purchase agreements with respect to other intangible asset and it is expected to spend ₩ 417 million in the future.



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**9. Goodwill**

Changes in goodwill for the years ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>		<b>2017</b>
<b>Balance at beginning of year</b>	₩	24,058,250
<b>Fluctuations due to foreign currency translation</b>		(1,303,916)
<b>Balance at end of year</b>	₩	22,754,334

Impairment tests for goodwill

<i>(In thousands of Korean won)</i>		<b>2017</b>		
<b>CGUs</b>		<b>Balance</b>	<b>Acquisitor</b>	<b>description</b>
Orion Corp.	₩	12,335,100	Orion Corp.	Transferred when Orion Snack International Corp. was merged into Orion Corp.
STELLA WAY LIMITED(including LANGFANG IPACK Co., Ltd)		10,419,234	Orion Corp.	Acquired in a business combination with STELLA WAY LIMITED(including LANGFANG IPACK Co., Ltd)
	₩	22,754,334		

The Group assess goodwill for impairment at the end of each reporting period. As a result of performing the annual impairment test, the Group concluded that the book amount of cash generating units did not exceed the recoverable amount.

The recoverable amount of the CGU is based on its value in use. The value in use is determined by discounting the future pre-tax cash flows which were based on the estimated financial budget for the next five years and the financial budget is confirmed by the management. The expected growth rate of sale for the next five years and the permanent growth rate for the years after the next five years do not exceed the long-term average growth rate of the industry that the cash generating unit belongs to. The assumption of constant growth rate is used in order to calculate the expected future cash flow. At the end of the reporting period, the key assumptions used for calculating the cash generating units which significant goodwill was allocated to, are as follows.

	Gross Profit Margin <sup>1</sup>	Growth rate of sale <sup>2</sup>	Permanant growth rate <sup>3</sup>	Pre-tax rate <sup>4</sup>
Orion Corp.	46.61%	4.47%	1.00%	8.34%
Stella way limited(Langfang IPACK Co., Ltd included)	23.00%	11.23%	1.50%	8.85%

<sup>1</sup> This is the average gross profit margin for the next five years.

<sup>2</sup> This is the average growth rate of sale for the next five years.

<sup>3</sup> This is the permanant growth rate expected after 5 years later.

<sup>4</sup> This is the pre-tax rate applied to the expected future cash flows.

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The Group expects that the carrying values of the CGUs may not exceed the recoverable amounts if the assumptions applied by the management in order to determine the recoverable amount of the CGUs change within the reasonably probable range.

**10. Investments in Joint ventures**

Investments in joint ventures as at December 31, 2017 are summarized as follows:

(In thousands of Korean won)

<u>Name</u>	<u>Location</u>	<u>Percentage of ownership</u>	<u>Book value</u>
Delfi-Orion Pte Ltd.	Singapore	50.00%	₩ 889,221
Orion Nonghyup Agri, inc. <sup>1</sup>	Domestic	49.00%	23,036,196
			₩ <u>23,925,417</u>

1. The Group holds 49% shares of Orion Nonghyup Agri, inc. however, the Group classified Orion Nonghyup Agri, inc. as a joint venture since it satisfied the classification of joint venture pursuant to the contract which specifies the unanimous consent of the parties that collectively control the arrangement and others.

The Group concluded to classify them as joint ventures since all the joint arrangements which the Group has the joint control of are structured through a separate vehicle and the parties that have joint control of the arrangement have rights to the net assets of the arrangements

The reporting date of the financial statements of associates and joint ventures which are used in order to prepare the consolidated financial statements is December 31, 2017

Changes in investments in joint ventures for the years ended December 31, 2017 are as follows:

(In thousands of Korean won)

<u>Name</u>	<u>2017</u>				
	<u>Balance at beginning of year</u>	<u>Acquisition</u>	<u>Share of profit (loss) of associates and joint ventures</u>	<u>Other<sup>1</sup></u>	<u>Balance at end of year</u>
Delfi-Orion Pte Ltd.	₩ 1,003,844	₩ -	₩ (71,488)	₩ (43,135)	₩ 889,221
Orion Nonghyup Agri, inc.	14,474,585	8,795,377	(198,441)	(35,325)	23,036,196
	₩ <u>15,478,429</u>	₩ <u>8,795,377</u>	₩ <u>(269,929)</u>	₩ <u>(78,460)</u>	₩ <u>23,925,417</u>

<sup>1</sup> Fluctuations due to foreign currency translation of foreign operations are included in others.

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Summary of financial information of joint ventures is as follows:

(In thousands of Korean won)

Name	2017					
	Assets	Liabilities	Equity	Revenue	Profit(loss) for the year	Total comprehensive income (loss)
Delfi-Orion Pte Ltd.	2,247,651	469,207	1,778,444	1,821,269	(128,308)	(128,308)
Orion Nonghyup Agri, inc.	47,576,742	564,098	47,012,644	-	(564,843)	(540,872)

The details of investments in joint ventures as at December 31, 2017 are as follows:

(In thousands of Korean won)

Name	2017			
	Net assets	Percentage of ownership(%)	Group's share of net assets	Book amount
Delfi-Orion Pte Ltd.	₩ 1,778,444	₩ 50.00%	₩ 889,221	₩ 889,221
Orion Nonghyup Agri, inc.	47,012,644	49.00%	23,036,196	23,036,196

**11. Other Assets**

Other assets as at December 31, 2017 are summarized as follows:

(In thousands of Korean won)

	2017	
	Current	Non-current
Prepayments	₩ 7,180,786	₩ -
Prepaid expenses	6,810,693	45,558,200
Others	8,519,797	1,786,152
	₩ 22,511,276	₩ 47,344,352

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**12. Inventories**

Inventories as at December 31, 2017 are summarized as follows:

<i>(In thousands of Korean won)</i>	<b>2017</b>
Merchandise and finished goods	₩ 64,568,819
Work-in-progress	6,791,711
Raw materials	63,050,387
Supplies	2,038,310
Raw materials-in-transit	11,756,006
Others	2,481,752
	₩ 150,686,985

The amount of inventories recognized as an expense and included as part of cost of sales during 2017 is ₩ 405,387 million.

**13. Trade and Other Receivables**

Trade and other receivables as at December 31, 2017 are summarized as follows:

<i>(In thousands of Korean won)</i>	<b>2017</b>	
	<b>Current</b>	<b>Non-current</b>
Trade receivables	₩ 123,973,389	₩ -
Less: allowance for bad debts	(2,056,661)	-
Other receivables	1,927,790	-
Less: allowance for bad debts	(74,900)	-
Accrued income	5,801,464	
Guarantee deposits	1,546,604	1,178,378
Loans	194,502	-
	₩ 131,312,188	₩ 1,178,378

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The aging analysis of the trade receivables, other receivables and loans as at December 31, 2017 is as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Receivables not past due	₩ 108,895,155
Past due but not impaired <sup>1</sup>	
Up to 3 months	13,322,534
3 to 6 months	1,450,988
Over 6 months	295,443
Subtotal	<u>15,068,965</u>
Impaired	
Up to 6 months	545,042
Over 6 months	1,586,519
Subtotal	<u>2,131,561</u>
Impairment loss	<u>(2,131,561)</u>
Total	₩ <u>123,964,120</u>

<sup>1</sup> Receivables past due but not impaired are related to a number of independent customers who have no recent history of default.

Changes in the allowance accounts for the years ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
<b>Balance at beginning of year</b>	₩ 2,363,470
Write - off	(7,191)
Reversal of bad debt allowance	(212,282)
Fluctuations due to foreign currency translation	(12,436)
<b>Balance at end of year</b>	₩ <u>2,131,561</u>

The trade and other receivables which are measured at amortized cost using the effective interest rate method as at December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>		
	<u>Effective interest rate</u>	<u>Current</u>	<u>Non- current</u>
Guarantee deposits	1.56%~4.98%	₩ 1,547,561	₩ 1,239,565
Less discount		<u>(957)</u>	<u>(61,187)</u>
		₩ <u>1,546,604</u>	₩ <u>1,178,378</u>

There is no material difference between the book amount and their amortized cost, except for the guarantee deposits described above, because the majority of trade and other receivables have short-term maturity.

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**14. Cash and Cash Equivalents, and Restricted Deposits**

Cash and cash equivalents as at December 31, 2017 are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Cash on hand	₩ 53,744
Demand deposits	101,552,549
	<u>₩ 101,606,293</u>

Deposits which are restricted in use as at December 31, 2017 are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Long-term deposits	₩ 49,578
Short-term deposits	50,731,500
Total	<u>₩ 50,781,078</u>

Deposit for checking account  
Collateral

**15. Capital stock**

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

<i>(In Korean won, except number of shares)</i>	<u>2017</u>
Number of common shares:	
- Authorized	480,000,000
- Issued	39,533,501
- Share capital	₩ 19,766,750,500
Par value per share	₩ 500

Cumulative participating preferred stocks can be issued as non-voting registered stocks for up to 240,000,000 shares with dividend rate of more than 5% preferred dividend rates based on the face amount with the approval of the Board of Directors. As at December 31, 2017, no preferred stocks have been issued.

The Company is allowed to grant stock options within 15/100 of the total number of stocks issued with the approval from the shareholders and within 3/100 of the total number of stocks issued with the approval of the Board of Directors to its employees who contribute or are able to contribute to the establishment, management, or technological innovation of the Company. The stock options that have been granted as at December 31, 2017, are described in Note 20.

According to its Articles of Incorporation, the Company can issue convertible bonds and bonds with stock warrants up to the face value of ₩ 300 billion with the approval from the Board of Directors. As at December 31, 2017, no convertible bonds or bonds with stock warrants have been issued.

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**16. Treasury Shares**

The company has 7,343 treasury shares as of December 31, 2017 with the acquisition cost of ₩ 604,361 thousand, which were odd-lot shares acquired at the market price resulted from spin-off.

**17. Other Capital**

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

<i>(In thousands of Korean won)</i>	<u>2017</u>
Changes from equity transactions	₩ 624,451,038
Exchange differences on translating foreign operations	(9,618,863)
Share of other comprehensive income of joint ventures	(90,206)
	<u>₩ 614,741,969</u>

**18. Retained Earnings**

The Korean Commercial Code requires the Group to appropriate a legal reserve at the minimum 10% of cash dividends for each accounting period until the reserve equals 50% of stated capital. The legal reserve may be used to reduce a deficit or may be transferred to ordinary shares in connection with a free issuance of shares. 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.

**19. Earnings per Share**

Basic earnings per share

<i>(In Korean won, except share information)</i>	<u>2017</u>
Profit for the year attributable to owners of the Group	₩ 75,583,997,115
Weighted-average number of ordinary shares	<u>39,527,496</u>
<b>Basic earnings per share</b>	<u>₩ 1,912</u>

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Weighted average number of ordinary shares

	<u>2017</u>
The number of ordinary shares issued at June 1, 2017	39,533,501
Treasury Shares	<u>(6,005)</u>
<b>Weighted average number of ordinary shares</b>	<b><u>39,527,496</u></b>

Diluted earnings per share

*(In Korean won, except share information)*

		<u>2017</u>
Profit for the year attributable to owners of the Group	₩	75,583,997,115
Adjusted Profit for the year attributable to owners of the Group		75,583,997,115
Diluted weighted average number of ordinary shares		<u>39,529,732</u>
<b>Diluted earnings per share</b>	₩	<b><u>1,912</u></b>

Diluted weighted average number of ordinary shares

*(In Korean won, except share information)*

		<u>2017</u>
Basic weighted average number of ordinary shares		39,527,496
Effect of stock options		<u>2,236</u>
Diluted weighted average number of ordinary shares		<b><u>39,529,732</u></b>

**20. Share-based Payments**

The terms and conditions of grants as at December 31, 2017, are as follows:

*(In Korean won, except number of shares)*

<u>Arrangement</u>	<u>2009.2.27</u>
The first grant quantity <sup>1</sup>	4,797
Exercise quantity <sup>1</sup>	(3,584)
Cancel quantity <sup>1</sup>	(813)
Exercisable quantity <sup>2</sup>	2,631
Exercise price <sup>2</sup>	14,980
Date of maturity	2019.2.27
Vesting conditions	3 years' service

<sup>1</sup> This is a share-based payment arrangement given by Orion Holdings Co., Ltd. prior to the spin-off. After the spin-off, it is divided by the equity spin-off ratio of Orion Corporation.

<sup>2</sup> As of June 1, 2017, due to stock split-up of Orion Holdings Co., Ltd. the number of exercisable shares has



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been changed from 400 to 4,000 shares. The exercise price has been changed from ₩149,800 to ₩14,980. The number of options available for exercise at the end of the year is calculated by the equity spin-off ratio of Orion Corporation.

The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following and this information is prior to spin-off.

<i>(In Korean won)</i>	<u>Inputs</u>
Date of grant	2009.2.27
Fair value at grant date	71,772
Current price at grant date	150,000
Exercise price	149,800
Expected volatility	47.8%
Option life (expected weighted average life)	6 years
Expected dividend	1.1%
Risk-free interest rate	5.2%

**21. Trade and Other Payables**

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

<i>(In thousands of Korean won)</i>	<u>2017</u>	
	<u>Current</u>	<u>Non-current</u>
Trade payables	₩ 68,347,164	₩ -
Other payables	82,781,829	25,898
Withholdings	3,472,793	-
Accrued expenses	37,311,233	-
Deposits received	145,500	76,624
	<u>₩ 192,058,519</u>	<u>₩ 102,522</u>

Details of trade and other payables that are measured at amortized cost as at December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>		
	<u>Effective interest rate</u>	<u>current</u>	<u>Non-current</u>
Deposits received	1.45%~1.93%	₩ 145,500	₩ 80,000
Less discount		-	(3,376)
		<u>₩ 145,500</u>	<u>₩ 76,624</u>

There is no material difference between the book amount and their amortized cost, except the deposits received described above, because the majority of trade and other payables have short-term maturity.

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**22. Borrowings and Debentures**

Borrowings and debentures as at December 31, 2017 are summarized as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
<b>Non-current</b>	
Debentures	₩ 330,000,000
Less discount	(673,937)
Long-term debts	<u>120,000</u>
<b>Subtotal</b>	<u>329,446,063</u>
<b>Current</b>	
Short-term borrowings	104,443,834
Current portion of long-term debts	<u>165,854,506</u>
<b>Subtotal</b>	<u>270,298,340</u>
<b>Total</b>	<u>₩ 599,744,403</u>

Terms and conditions of debentures as at December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>Maturity</u>	<u>Interest rate</u>	<u>2017</u>
98th	2019-04-17	3.47%	50,000,000
100th	2020-04-24	2.11%	70,000,000
101th	2022-03-02	2.24%	60,000,000
102th	2022-05-29	2.37%	50,000,000
103-1th	2020-11-06	2.63%	50,000,000
103-2th	2022-11-06	2.87%	<u>50,000,000</u>
			330,000,000
Less current portion of debentures			<u>-</u>
			<u>₩ 330,000,000</u>

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Terms and conditions of long-term debts as at December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<b>Maturity</b>	<b>Interest rate</b>	<b>Currency</b>	<b>2017</b>
Industrial Bank of Korea	2018	Libor 3M+1.67%	USD	10,693,218
	2018	Libor 3M+0.85%	USD	32,251,963
Korea Development Bank	2018	Libor 3M+1.80%	USD	13,232,858
	2018	Libor 3M+1.68%	USD	7,485,253
Woori Bank	2018	Libor 3M+1.70%	USD	37,627,290
	2018	Libor 3M+1.60%	USD	26,876,635
DBS Bank	2018	Libor 3M+1.86%	USD	16,125,981
KEB Hana Bank	2018	Libor 3M+1.90%	USD	21,501,308
Siheung Environmental Management Center	2020	-	KRW	180,000
				<u>165,974,506</u>
Less current portion				<u>(165,854,506)</u>
			₩	<u>120,000</u>

Short-term borrowings as at December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<b>Interest rate</b>	<b>Currency</b>	<b>2017</b>
Kookmin Bank	0.4%	EUR	₩ 642,290
Shinhan Bank	0.40%	EUR	696,807
	Libor 3M+ 0.30%	USD	209,691
Hyundai Card	1.44%	KRW	2,130,800
KB Sec.	2.14%	KRW	20,000,000
Sumitomo Mitsui Banking Corporation	2.36%	KRW	1,000,000
	Libor 3M+1.00%	RUB	8,570,910
	Libor 3M+1.86%	USD	37,627,290
Citi Bank	Libor 3M+0.65%	USD	17,201,046
Woori Bank	4.13%	CNY	<u>16,365,000</u>
			₩ <u>104,443,834</u>

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The following assets are pledged as collateral for the Group's accounts and notes payable – trade, short-term borrowings, long-term debts and debentures as at December 31, 2017:

*(In thousands of Korean won)*

<b>Asset</b>	<b>Lender</b>	<b>Type of borrowing</b>	<b>Borrowing amount</b>	<b>Book amount</b>	<b>Collateralized amount</b>
Land and buildings	Siheung Environmental Management Center	General loan	180,000	9,052,168	780,000
Short-term financial deposits	Industrial Bank of Korea	General loan	42,945,181	50,731,500	50,731,500
			<u>₩ 43,125,181</u>	<u>₩ 59,783,668</u>	<u>₩ 51,511,500</u>

Book amount and fair value of borrowings as at December 31, 2017 are as follows:

*(In thousands of Korean won)*

	<b>2017</b>	
	<b>Book amount</b>	<b>Fair value<sup>1</sup></b>
Short-term borrowings	₩ 270,298,340	₩ 270,298,340
Long-term borrowings	329,446,063	330,123,635
	<u>₩ 599,744,403</u>	<u>₩ 600,421,975</u>

<sup>1</sup> The fair values of short-term borrowings equal to their book amounts as the impact of discounting is not significant. The fair values of long-term liabilities are based on discounted cash flows at the weighted average borrowing rates of 2.52% for long-term borrowings.

**23. Employee Benefits**

The Group operates defined contribution plan. According to this plan, the Group pays retirement benefits calculated under the plan's benefit formula at the time employees leave the Group. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method.

The retirement benefit expenses for the years ended December 31, 2017 are as follows:

*(In thousands of Korean won)*

	<b>2017</b>
Contributions to defined contribution plans	₩ 562,467
Expenses related to post-employment defined benefit plans	6,696,727
	<u>₩ 7,259,194</u>

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Changes in net defined benefit liability(asset) for the years ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>Defined benefit obligation</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability(asset)</u>
		<b>2017</b>	
<b>Balance at June 1</b>	₩ 64,175,493	₩ (58,522,480)	₩ 5,653,013
<b>Included in profit or loss:</b>			
Current service costs	6,736,509	-	6,736,509
Interest costs (income)	771,558	(811,340)	(39,782)
	<u>7,508,067</u>	<u>(811,340)</u>	<u>6,696,727</u>
<b>Included in other comprehensive income:</b>			
Remeasurements loss (gain) - Actuarial loss (gain) arising from:			
Experience adjustment	408,220	-	408,220
Demographic assumptions	(758,705)	-	(758,705)
Financial assumptions	(576,079)	-	(576,079)
- Return on plan assets excluding interest income	-	145,184	145,184
	<u>(926,564)</u>	<u>145,184</u>	<u>(781,380)</u>
<b>Others:</b>			
Contributions paid by the employer	-	(11,265,000)	(11,265,000)
Transferred from a related party	4,877,873	(4,548,989)	328,884
Transferred to a related party	(250,005)	250,005	-
Benefits paid	(5,263,446)	5,199,127	(64,319)
Exchange differences on translating foreign operations	(6,384)	-	(6,384)
Other	(750,077)	-	(750,077)
	<u>(1,392,039)</u>	<u>(10,364,857)</u>	<u>(11,756,896)</u>
<b>Balance at December 31</b>	₩ <u>69,364,957</u>	₩ <u>(69,553,493)</u>	₩ <u>(188,536)</u>

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The components of plan assets as at December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Equity securities	₩ 2,685,587
Debt securities	37,140,366
Others	<u>29,727,540</u>
	<u>₩ 69,553,493</u>

The principal actuarial assumptions as at December 31, 2017 are as follows:

	<u>2017</u>
Discount rate	3.04%
Future salary growth	6.32%

For the purpose of calculating present value of defined benefit obligation, the Group used the discount rate determined based on the yield rate of bonds with good ratings which are in line with defined benefit obligations in terms of currency and maturity.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

<i>(In thousands of Korean won)</i>	<u>2017</u>	
	<u>1% increase</u>	<u>1% decrease</u>
Discount rate	₩ (4,484,983)	₩ 2,873,241
Future salary growth	2,793,601	(4,483,281)

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

The weighted average duration of the defined benefit obligations is 5.55 years as at December 31, 2017.

Maturity analysis of pension benefit payments that are not currently discounted is shown below.

<i>(In thousands of Korean won)</i>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>Beyond 5 years</u>	<u>Total</u>
Benefit payments	₩ 9,579,565	₩ 9,584,171	₩ 26,891,700	₩ 126,050,063	₩ 172,105,499

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**24. Derivative Instruments**

At the end of the reporting period, the details of derivative contracts the Group has for the purpose of trading are follows

The details of forward contracts which maturity dates have not been arrived are follows:

<i>(In thousands of Korean won)</i>	<u>Contract date</u>	<u>Expiration date</u>	<u>Contract amount to sell</u>	<u>Contract amount to buy</u>	<u>Contracted exchange rate</u>	<u>Counterparty</u>	<u>Derivative asset (liability)</u>
Hold for trading	March 24, 2017	March 23, 2018	RUB 155,025,000	USD 2,500,000	62.01	SMBC ₩	158,051
Hold for trading	July 4, 2017	July 4, 2018	RUB 95,505,000	USD 1,500,000	63.67	SMBC	102,877
						₩	260,928

Gains or losses on valuation of derivatives for the years ended December 31, 2017 are as follow:

<i>(In thousands of Korean won)</i>	<u>Type</u>	<u>Gains (losses)</u>	<u>Recognized in</u>
Hold for trading	Interest rate swap(*)	2,491	Profit or loss
Hold for trading	Foreign exchange forward transaction	(619,645)	Profit or loss

(\*)Interest rate swap expired during this year.

**25. Other Liabilities**

Other liabilities as at December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	
	<u>Current</u>	<u>Non-current</u>
Advances received	₩ 35,903,570	₩ -
Unearned revenue	3,685,518	3,368
Provision for warranty	2,873,120	-
Others	629,202	-
	<u>₩ 43,091,410</u>	<u>₩ 3,368</u>

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**26. Operating lease**

As of December 31, 2017, the Company uses operating leases for some buildings and vehicles. The future minimum lease payments under operating lease agreements are as follows:

*(In thousands of Korean won)*

	<u>2017</u>
Within one year	₩ 10,194,641
Later than one year and not later than five years	25,389,819
Later than five years	<u>3,760,437</u>
	₩ 39,344,897

**27. Sales and Cost of Sales**

Sales and cost of sales for the years ended December 31, 2017 are as follows:

*(In thousands of Korean won)*

	<u>2017</u>
<b>Sales</b>	
Finished goods	₩ 1,107,631,996
Merchandise	2,673,671
Others	<u>6,914,893</u>
	₩ 1,117,220,560
<b>Cost of sales</b>	
Finished goods	₩ 585,799,332
Merchandise	1,743,654
Others	<u>5,933,586</u>
	₩ 593,476,572



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**28. Selling Expenses and General and Administrative Expenses**

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

<i>(In thousands of Korean won)</i>	<u>2017</u>
Salaries	₩ 95,603,509
Retirement and termination benefits	2,965,059
Employee welfare	7,548,638
Travel expenses	3,900,809
Taxes and dues	10,043,987
Rental expenses	10,864,336
Depreciation	4,040,406
Amortization	937,216
Advertising expenses	42,689,041
Ordinary development expense	671,063
Freight and custody	51,336,216
Commissions	48,482,814
Promotion	45,226,210
Bad debt expenses	(169,418)
Others	17,204,681
	<u>₩ 341,344,567</u>

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

<i>(In thousands of Korean won)</i>	<u>2017</u>
Salaries	₩ 34,169,550
Retirement and termination benefits	3,071,539
Employee welfare	4,751,260
Travel expenses	998,813
Taxes and dues	2,097,460
Rental expenses	5,003,740
Depreciation	4,618,745
Amortization	620,729
Commissions	13,998,516
Others	5,642,456
	<u>₩ 74,972,808</u>

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**29. Other Income and Other Expenses**

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

<i>(In thousands of Korean won)</i>	<u>2017</u>
<b>Other income</b>	
Foreign currency transaction gain	₩ 208,928
Foreign currency translation gain	794,897
Gain on sale of property, plant and equipment	6,281,382
Gain on sale of intangible assets	5,807
Reversal of impairment loss on intangible assets	41,089
Reversal of bad debt allowance	42,864
Others	2,668,250
	<u>₩ 10,043,217</u>
<b>Other expenses</b>	
Foreign currency transaction loss	₩ (260,868)
Foreign currency translation loss	(2,998,585)
Loss on sale of property, plant and equipment	(2,019,351)
Loss on sale of intangible assets	(911)
Loss on disposition of trade receivables	(589,365)
Loss on disposal of assets held-for-sale	(101,043)
Others	(3,034,125)
	<u>(9,004,248)</u>
<b>Net other income</b>	<u>₩ 1,038,969</u>

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**30. Finance income and expense**

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

*(In thousands of Korean won)*

	<u>2017</u>	
<b>Finance income</b>		
Interest income	₩	4,361,052
Foreign currency transaction gain		25,290
Foreign currency translation gain		5,431,860
Gain on derivatives valuation		2,491
Gain on derivatives transaction		<u>63,124</u>
	₩	<u>9,883,817</u>
<b>Finance cost</b>		
Interest expense	₩	(11,590,163)
Foreign currency transaction loss		(436,195)
Foreign currency translation loss		(375,557)
Loss on derivatives valuation		<u>(619,645)</u>
		<u>(13,021,560)</u>
<b>Net finance cost</b>	₩	<u>(3,137,743)</u>

**31. Nature of expenses**

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

*(In thousands of Korean won)*

	<u>2017</u>		
	<u>Cost of sales</u>	<u>Selling, general and administrative expense</u>	<u>Total</u>
Raw materials and consumables used	₩ 344,406,127	₩ -	₩ 344,406,127
Purchasing merchandise	2,794,723	-	2,794,723
Changes in inventories of finished goods and merchandise	58,186,618	-	58,186,618
Employee benefits expense	48,837,120	135,809,656	184,646,776
Taxes and Dues	1,319,034	12,141,447	13,460,481
Rental Expenses	9,800	15,868,076	15,877,876
Depreciation and amortization	55,585,737	10,217,096	65,802,833
Advertising expenses	-	42,624,578	42,624,578
Freight and custody	1,095,581	51,336,216	52,431,797
Maintenance cost of vehicles	102,432	3,344,868	3,447,300
Commission	11,198,420	62,656,999	73,855,419
Others	<u>69,940,980</u>	<u>82,318,438</u>	<u>152,259,418</u>
	₩ <u>593,476,572</u>	₩ <u>416,317,374</u>	₩ <u>1,009,793,946</u>

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**32. Financial Instruments by Categories and Finance Risk Management**

Finance income and cost by categories for the years ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	2017				
	Finance income	Finance cost	Net income	Other comprehensive income	Total comprehensive income
<b>Financial assets</b>					
Loans and receivables	₩ 4,471,210	₩ (12,722)	₩ 4,458,488	₩ -	₩ 4,458,488
Available-for-sale financial assets	5	(85)	(80)	-	(80)
Subtotal	4,471,215	(12,807)	4,458,408	-	4,458,408
<b>Financial liabilities</b>					
Financial liabilities measured at amortized cost	5,346,987	(12,389,108)	(7,042,121)	-	(7,042,121)
Financial liabilities at fair value through profit or loss	65,615	(619,645)	(554,030)	-	(554,030)
Subtotal	5,412,602	(13,008,753)	(7,596,151)	-	(7,596,151)
Total	₩ 9,883,817	₩ (13,021,560)	₩ (3,137,743)	₩ -	₩ (3,137,743)

The book amount and the fair value of financial instruments as at December 31, 2017, are summarized as follows:

<i>(In thousands of Korean won)</i>	Book Value	Fair value
<b>Financial assets</b>		
Loans and receivables	₩ 284,877,937	₩ 284,877,937
<b>Financial liabilities</b>		
Financial liabilities measured at amortized cost	₩ 783,157,866	₩ 783,835,438
Financial liabilities at fair value through profit or loss	260,928	260,928

The Group estimates the book amounts of financial assets, other than long-term borrowings, at reasonable amounts that approximate fair values..

The levels of the fair value hierarchy and its application to financial assets and liabilities are described below.

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Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs, other than quoted prices, that are observable from market 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)

The fair value measurements classified by fair value hierarchy as at December 31, 2017, are as follows:

<i>(In thousands of Korean won)</i>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
<b>December 31, 2017</b>				
Financial liabilities at fair value through profit or loss	-	(260,928)	-	(260,928)

**33. Income Taxes**

Income tax expense (benefit) for the years ended December 31, 2017 consists of:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Current income tax expense	₩ 23,036,509
Origination and reversal of temporary differences	5,530,224
<b>Total income tax effect</b>	<u>28,566,733</u>
Income tax recognized in other comprehensive income	(189,094)
<b>Total income tax expense</b>	<u>₩ 28,377,639</u>

Origination and reversal of temporary differences for the years ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Deferred tax liabilities net, ending balance	₩ (57,862,657)
Deferred tax liabilities net, beginning	<u>(52,332,433)</u>
Origination and reversal of temporary differences	<u>(5,530,224)</u>

Income taxes recognized directly in other comprehensive income for the years ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Remeasurements of the defined benefit liability	₩ (189,094)
<b>Income tax expense (income) recognized directly in other comprehensive income</b>	<u>₩ (189,094)</u>

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Reconciliation between profit before income tax and income tax expense for the years ended December 31, 2017 is as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Profit before income tax	₩ 105,057,911
Income tax using the Group's statutory tax rate	₩ 26,470,863
Adjustments :	
Non-deductible expense	109,222
Tax credits	(336,124)
Adjustments for prior periods	2,133,678
Income tax expense	₩ <u>28,377,639</u>
Effective tax rate	27.01%

The net deferred tax liabilities are reflected in the statements of financial position after offsetting assets and liabilities only if there is the legal right to offset current tax assets and liabilities and they are levied by the same taxing authority.

Changes in deferred tax assets and liabilities for the years ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>Beginning balance</u>	<u>Profit or loss</u>	<u>Other comprehensive income</u>	<u>Ending balance</u>
Bad debt expense	₩ 650,076	₩ (344,070)	₩ -	₩ 306,006
Provision for warranty	719,300	(24,002)	-	695,298
Research and human development reserves	(699,111)	376,444	-	(322,667)
Accumulated depreciation	(43,923,033)	(15,894,025)	-	(59,817,058)
Defined benefit liability	-	189,094	(189,094)	-
Land	(12,124,797)	571,285	-	(11,553,512)
Investments in subsidiaries	742,724	-	-	742,724
Others	2,302,408	9,784,144	-	12,086,552
	₩ <u>(52,332,433)</u>	₩ <u>(5,341,130)</u>	₩ <u>(189,094)</u>	₩ <u>(57,862,657)</u>

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The amount of deductible temporary differences for which deferred tax assets are not recognized as at December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Investments in subsidiaries	₩ 139,855,442
Other	149,257

The Group does not recognize any deferred tax asset for the deductible temporary differences stated above as these are not probable to reverse in the foreseeable future and sufficient future taxable profits will not be available against which tax loss carry-forwards can be used.

The amounts of taxable temporary differences for which no deferred tax liabilities are recognized as at December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Investments in subsidiaries	₩ (123,857,518)

As at December 31, 2017, the Group does not recognize any deferred tax liability for the above, because the Group is able to control the timing of the reversal of taxable temporary differences related to investments of subsidiaries and it is probable that the temporary difference will not reverse in the foreseeable future.

The aggregate amounts of tax assets and liabilities as at December 31, 2017 before offsetting are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Income taxes payable	₩ 17,673,284
Prepaid income taxes	(407,966)
Income taxes payable, net	<u>₩ 17,265,318</u>

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**34. Financial Risk Management**

**The levels of Risk management**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Currency risk
- Interest risk
- Other price risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

**Risk management activities**

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Finance Department has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Finance Department; these limits are reviewed quarterly.

There is no material concentration of credit risk and the risk is dispersed to various business partners at December 31, 2017.

The carrying amount of financial assets is maximum exposure to credit risk. The maximum exposure to credit risk as at December 31, 2017 is as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Short-term and long-term deposits	50,781,078
Trade and other receivables	132,490,566
Cash equivalents <sup>1</sup>	101,552,549
	<u>₩ 284,824,193</u>

<sup>1</sup> The rest of Cash and cash equivalents on the consolidated statements of financial position is cash hold by the Group

Meanwhile, the Group is depositing cash or cash equivalents to financial institutes such as Shinhan Bank whose credit rating is high. Thus credit risk from financial institution is limited.



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Besides above, as at December 31, 2017, the Group has the credit risk to pay back liability(₩508,521 million) at June 1, 2017(the date of spin-off) in solidarity with Orion Holdings Corporation (formerly Orion Corporation), by the Commercial Law Article 530-9 (1).

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The maturity analysis of non-derivative financial liabilities as at December 31, 2017 is as follows:

<i>(In thousands of Korean won)</i>		<b>Book Value</b>		<b>Contractual cash flow</b>		<b>Within 6 months</b>		<b>6-12 months</b>		<b>1-2 years</b>		<b>2-5 years</b>
Borrowings	₩	599,744,404	₩	600,481,601	₩	116,250,034	₩	162,470,310	₩	55,537,417	₩	266,223,840
Trades and other payables		183,413,462		183,416,839		177,359,917		5,951,024		55,898		50,000
Financial liabilities at fair value through profit or loss		260,928		260,928		158,051		102,877		-		-
	₩	<u>783,418,794</u>	₩	<u>784,159,368</u>	₩	<u>293,768,002</u>	₩	<u>168,524,211</u>	₩	<u>55,593,315</u>	₩	<u>266,273,840</u>

Besides above, as at December 31, 2017, the Group has to pay back liability(₩508,521 million) at June 1, 2017(the date of spin-off) in solidarity with Orion Holdings Corporation (formerly, Orion Corporation), by the Commercial Law Article 530-9 (1). Above liability is allocated to the earliest period in which the Group can be required to pay.

The Group does not expect that this cash flow will appear substantially earlier than or substantially different in amounts from what the Group forecasts.

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**Currency risk**

The Group's exposure to foreign currency risk occurs on the assets and liabilities that are not presented with functional currency. The Group's exposure to foreign currency risk is as follows based on notional amounts:

<i>(In thousands of Korean won)</i>	<b>USD</b>		<b>JPY</b>		<b>EUR</b>		<b>CHF</b>	
<b>December 31, 2017</b>								
Cash and cash equivalents	₩	4,346,063	₩	131,584	₩	-	₩	-
Trade receivables and other receivables		1,865,842		1,610,788		539,757		-
Trade payables and other payables		(6,310,673)		(145,393)		(1,075,242)		(89,793)
Borrowings		(229,403,444)		-		(1,339,097)		-
	₩	<u>(229,502,212)</u>	₩	<u>1,596,979</u>	₩	<u>(1,874,582)</u>	₩	<u>(89,793)</u>

The exchange rates as at December 31, 2017 are as follows:

	<b>2017</b>
USD	1,071.40
JPY	9.49
EUR	1,279.25
CHF	1,094.72

As at December 31, 2017 the effects of a 10% appreciating or depreciating of foreign currencies against functional currency on profit before tax are as follows:

<i>(In thousands of Korean won)</i>	<b>2017</b>			
	<b>10% strengthening</b>		<b>10% weakening</b>	
USD	₩	(22,950,222)	₩	22,950,222
JPY		159,698		(159,698)
EUR		(187,458)		187,458
CHF		(8,979)		8,979
	₩	<u>(22,986,961)</u>	₩	<u>22,986,961</u>

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**Interest rate risk**

At the reporting date the variable rate financial liabilities are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Short-term borrowings	₩ 63,608,938
Current portion of long-term borrowings	165,794,506
	<u>₩ 229,403,444</u>

As at December 31, 2017, the effects of a 100bp fluctuation of the interest rates on profit (loss) except long-term debts hedged at floating risk were as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>	
	<u>10% increase</u>	<u>10% decrease</u>
Net finance cost	₩ (2,294,034)	₩ 2,294,034

**Capital management**

The Board's policy is to maintain a sound capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group's main objective is to maximize shareholder's profit and monitoring the level of dividends as a mean of capital management. Capital structure of the Group consists of net debts which is Debts and borrowings less cash and cash equivalents and equity.

As at December 31, 2017, the Group's net debt-to-equity ratio as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Net debt:	
Debts and borrowings	₩ 599,744,403
Less: Cash and cash equivalents	(101,606,293)
	<u>498,138,110</u>
Equity	1,344,904,442
Net debt-to-equity ratio	37.04%

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**35. Financial Commitments and Contingencies**

Financial commitments to financial institutions as at December 31, 2017 are as follows:

*(In thousands of  
Korean won,  
US dollars,  
Chinese yuan)*

<b>Contract Company</b>	<b>Lender</b>	<b>Type of commitment</b>	<b>Amount</b>		
Orion Corporation	Kookmin Bank	Usance	USD	10,000,000	
		Purchase loan	KRW	20,000,000	
		Bank overdraft	KRW	5,000,000	
	Shinhan Bank	Usance	USD	15,900,000	
		Purchase loan	KRW	30,000,000	
	KEB Hana Bank	Credit loan	KRW	5,000,000	
		Sumitomo Mitsui Banking Corporation	Credit loan	KRW	20,000,000
	Orion Food Co., Ltd.	Hyundai Card	Group purchase card	KRW	12,000,000
		Woori Bank	General loan	CNY	100,000,000
KEB Hana Bank		General loan	CNY	100,000,000	
Industrial Bank of Korea		General loan	CNY	80,000,000	
Korea Development Bank		General loan	USD	7,000,000	
Orion Food Guangzhou Co., Ltd.		Korea Development Bank	General loan	USD	15,000,000
			Industrial Bank of Korea	General loan	USD
Orion Food (Shanghai) Co., Ltd.		Industrial and Commercial Bank of China	General loan	CNY	150,000,000
			HSBC	General loan	CNY
			KRW	92,000,000	
Total			USD	57,900,000	
			CNY	780,000,000	

As at December 31, 2017, guarantees of ₩271 million are provided to the Group by Seoul Guarantee Insurance Company etc. for the performance of contracts.

As at December 31, 2017, the Group has to pay back liability at the date of spin-off in solidarity with Orion Holdings Corporation by the Commercial Law Article 530-9 (1).

As at December 31, 2017, the Group provides guarantees to the customers with the maximum amount of ₩12,000 million in relation to the Corporate Purchase Card of Hyundai Card.

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Details of lawsuit pending as at December 31, 2017 are summarized as follows.

(In thousands  
of Korean won)

<b>Group</b>	<b>Plaintiff</b>	<b>Defendant</b>	<b>Contents</b>	<b>Amounts</b>	<b>Progress</b>
	Bong Suk Kang and 13 others	Orion Corp.	Claim for wages	₩ 397,343	Second trial in progress
	Overman Corp.	Orion Corp.	Compensation for damages	148,992	First trial in progress
	Orion Corp. and 1 other	Kyung Min Cho	Compensation for damages	600,000	First trial in progress
	Orion Corp and 2 others	Non-Gaek dot com and 3 others	Compensation for damages	600,000	First trial in progress
Orion Corp.	Orion Corp.	Hyang Sook Jung	Application for decision of the purchase price of shares	6,152	Won at January 18, 2018
	Orion Corp.	Korea-Seven	Buildings Evacuation	30,331	First trial in progress
	Orion Corp.	Sung Tae Kim	Security seizure	448,612	Won at January 02, 2018
	Orion Corp.	Yong Seok Ko	Claim for loan return	35,310	First trial in progress
	Orion Corp.	Yong Seok Ko	Compensation for damages	198,159	Compulsory Mediation at December 28, 2017.

**36. Related Party Transactions**

Related parties as at December 31, 2017, are as follows, excluding subsidiaries:

<b>Relationship</b>	<b>Related Party</b>
Parent	Orion Holdings. Corp
Joint ventures	Delfi-Orion Pte Ltd, Orion Nonghyup Agri, inc. <sup>1</sup> Reon A&D Corp, Showbox Corp., Megamark International, Supreme Star Investment Corp. Limited, JeJu Yongam Soo Corp, Highland D&C Corp., Misoin Corp., Orion Consulting Co., Ltd., Beijing Supreme Star Consulting Co., Ltd., Beijing Mediatech Co.,Ltd., Beijing Megamedia Co., Ltd., SHOWBOX Inc., Orion Investment Development Corp., Supreme Star Holdings Limited, Daehan distributor Corp., Gemini Contents Investment Partnership #1, Michigan Global Contents Investment Fund, Michigan Global Contents Investment Fund #3, Michigan Global Contents Investment Fund #4, Beijing Zhongguan Megabox Cinema Co., Ltd., S.M.Contents Investment Fund No.5, Orion Institute
Parent's subsidiaries	
Associates	

<sup>1</sup> K-food. Co., Ltd has changed its name into Orion Nonghyup Agri, inc.

Significant transactions which occurred in the normal course of business with related parties for the years ended December 31, 2017, are summarized as follows:

Sales etc.

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(In thousands of Korean won)

<b>Relationship</b>	<b>Related party</b>	<b>Transaction</b>	<b>2017</b>
Parents	Orion Holdings Corp.	Sales	₩ 740
		Other Income etc.	161,527
Parents' Subsidiaries	Showbox Corp.	Sales	27,020
		Other Income etc.	7,834
Joint Ventures	JeJu Yongam Soo Corp.	Other Income etc.	696
	Delfi-Orion Pte Ltd	Sales	1,369,069
	Orion Nonghyup Agri, inc.	Other Income etc.	122,192
	<b>Total</b>		₩ <u>1,689,078</u>

Purchase etc.

(In thousands of Korean won)

<b>Relationship</b>	<b>Related party</b>	<b>Transaction</b>	<b>2017</b>
Parents	Orion Holdings Corp.	Other expense	₩ 8,094,136
Parents' Subsidiaries	Showbox Corp.	Other expense	797
		Purchase of fixed asset	4,474
Joint Ventures	Orion Nonghyup Agri, inc.	Purchase	120,965
	<b>Total</b>		₩ <u>8,220,372</u>

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Accounts receivable and accounts payable balances with related parties as at December 31, 2017 are as follows:

*(In thousands of Korean won)*

Relation-ship	Related party	Receivables		Payables
		Trade Receivables	Other Receivables	Other payables
Parents	Orion Holdings Corp	₩ -	₩ 24,610	₩ 2,482,680
Parents subsidiaries	Showbox Corp.	-	3,544	5,033
Joint ventures	Delfi-Orion Pte Ltd	132,350	-	-
	<b>Total</b>	₩ 132,350	₩ 28,154	₩ 2,487,713

Investments transactions with related parties as at December 31, 2017 are as follows:

*(In thousands of Korean won)*

Relationship	Related party	Transaction	2017
Joint Ventures	Orion Nonghyup Agri, inc.	Cash Investments	₩ (8,795,377)

Details of key management personnel compensation for the years ended December 31, 2017 are as follows:

*(In thousands of Korean won)*

	2017
Short-term employee benefits	₩ 1,874,130
Post-employment benefits	393,066
	₩ 2,267,196

Key management consists of registered executive officers and auditors who have the authority and responsibility in the planning, directing and control of the Group's operations.

As at December 31, 2017, the Group has to pay back liability at the date of spin-off in solidarity with Orion Holdings Corporation, by the Commercial Law Article 530-9 (1).

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**37. Supplemental Cash flows information**

The principal non-cash transactions for the years ended December 31, 2017 are as follows:

<i>(In thousands of Korean won)</i>	<u>2017</u>
Reclassification from construction in progress to property, plant and equipment	₩ 73,805,660
Other payables regarding the acquisition of property, plant and equipment	(7,623,771)
Other payables regarding the acquisition of intangible assets	(62,966)
Reclassification from long-term borrows to short-term borrowings	106,514,872
Reclassification from property, plant and equipment to non-current asset held for sale	1,975,026
Reclassification from long-term prepaid expenses to short-term prepaid expenses	385,013
Reclassification from long-term rental deposits to short-term rental deposits	137,360

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

<i>(in thousands of Korean won)</i>	<u>2017</u>					
	<u>Beginning Balance</u>	<u>Cash flows from financing activities</u>	<u>Depreciation etc</u>	<u>Effects on foreign currency change</u>	<u>Non cashflow Activities Reclassification</u>	<u>Ending Balance</u>
Short-term borrowings	₩ 139,252,930	₩ (26,307,266)	₩ -	₩ (8,501,830)	₩ -	₩ 104,443,834
Current portion of long-term borrowings	294,849,424	(227,763,181)	-	(7,746,609)	106,514,872	165,854,506
Long-term borrowings	336,164,246	99,707,360	-	89,330	(106,514,872)	329,446,064
Current Leasehold deposits received	536,851	(391,660)	309	-	-	145,500
Leasehold deposits received	-	80,000	(3,376)	-	-	76,624
<b>Total</b>	<u>₩ 770,803,451</u>	<u>₩ (154,674,747)</u>	<u>₩ (3,067)</u>	<u>₩ (16,159,109)</u>	<u>₩ -</u>	<u>₩ 599,966,528</u>

The Group is presenting net amount of cash flow caused by deposits whose amount is big due to frequent transactions and maturity comes in a short period of time.



# Orion Corporation and Subsidiaries

## Notes to the Consolidated Financial Statements

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#### 38. Spin-Off

The Group was established by the spin-off of the Orion Holdings Corporation (formerly Orion Corporation) confectionary's manufacturing and sales segment on June 1, 2017. Shareholders approved the spin-off on March 31, 2017, during the shareholders' meeting.

The progress of equity spinoff is as follows:

<b>Category</b>	<b>Details</b>
Type of divestiture	Equity Spinoff
Object of divestiture	Orion holdings Corporation (Surviving firm) Orion Corporation (Newly established firm)
Approval of the general meeting of shareholders	March 31, 2017
Completion	June 1, 2017

The Group transferred book value of consolidated financial statement of Orion Holdings Corporation, top-tier parent company before spin-off.