

PI Advanced Materials Co., Ltd.

Financial Statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Based on a report originally issued in Korean

To the Shareholders and Board of Directors of
PI Advanced Materials Co., Ltd.

Opinion

We have audited the financial statements of PI Advanced Materials Co., Ltd. (formerly SKC Kolon PI Co., Ltd.) (the "Company"), which comprise the statements of financial position as of December 31, 2020 and 2019, the statements of comprehensive Income, changes in equity and cash flows for the years then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Korean International Finance Reporting Standards ("K-IFRS").

Basis for Opinion

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

Key Audit Matter

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the financial statements as of and for the year ended December 31, 2020. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

The Company's sales are one of its key financial performance indicators. Among them, as for overseas sales there are various performance obligations depending on the contract and export conditions with the customer, and the timing of transfer of control varies, requiring management's judgement to determine when revenue is recognized. Therefore, we identified the cut-off of revenue recognition related to the overseas sales as a key audit matter considering that the Company is exposed to the risk of misjudgment or intentional overstatement of revenue recognized.

The primary procedures we performed to address this key audit matter include followings:

- Testing certain internal controls over revenue recognition process.
- Performing a procedure to assess the correct period of the revenue recognition through document inspection using a sampling method based on statistical techniques for sales transactions occurring before and after the end of the reporting period.
- Performing analytical procedures, such as comparing performance with the past periods and trend analysis, by type of sales.



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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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



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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements as of and for the year ended December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Dong-Hyun Chi.

KPMG Samjong Accounting Corp.

Seoul, Korea
March 8, 2021

This report is effective as of March 8, 2021, 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 financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

PI Advanced Materials Co., Ltd.
Statements of Financial Position
As of December 31, 2020 and 2019

(In won)

	Note	December 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents	6,32 ₩	75,842,266,612	28,540,843,961
Trade receivables	7,32	34,368,792,079	29,719,136,209
Other receivables	8,32	383,607,221	436,265,662
Inventories	10	31,579,838,805	46,696,458,197
Other current assets	15	1,857,794,372	3,123,574,777
Total Current assets		144,032,299,089	108,516,278,806
Property, plant and equipment	11,17	240,079,404,999	255,376,211,926
Intangible assets	12	11,529,926,935	5,871,924,528
Investment property	13,17	3,677,674,288	3,764,713,460
Right-of-use assets	29	599,362,235	919,480,576
Other Non-current financial assets	14,32	5,000,000	5,000,000
Other Non-current receivables	8,32	3,154,864,722	2,110,132,599
Net defined benefit assets	18	233,525,019	-
Other Non-current assets	15	719,401,605	16,401,340,212
Total Non-current assets		259,999,159,803	284,448,803,301
Total assets	₩	404,031,458,892	392,965,082,107

See accompanying notes to the financial statements.

PI Advanced Materials Co., Ltd.
Statements of Financial Position, Continued
As of December 31, 2020 and 2019

(In won)

	<i>Note</i>	December 31, 2020	December 31, 2019
Liabilities			
Trade payables	32,33 ₩	13,729,813,838	11,499,932,419
Short-term borrowings	17,32,33	24,333,622,416	22,203,098,298
Current portion of long-term borrowings	17,32,33	13,333,280,000	19,624,990,000
Current Lease liabilities	29,33	399,925,034	568,308,596
Provisions	19	40,340,769	16,037,554,641
Current tax liabilities	28	8,632,062,036	1,476,930,110
Other payables	16,32,33	18,461,452,044	19,699,445,685
Other current liabilities	20	1,483,848,959	2,218,797,686
Current derivative liabilities	9,32,33	440,733,703	367,320,283
Total Current liabilities		80,855,078,799	93,696,377,718
Long-term borrowings	17,32,33	22,666,600,000	29,999,880,000
Non-current Lease liabilities	29,33	176,144,049	318,284,046
Net defined benefit liabilities	18	-	1,122,481,664
Deferred tax liabilities	28	16,209,411,627	14,961,396,037
Non-current derivative liabilities	9,32,33	193,924,353	424,028,904
Other Non-current payables	16,32,33	1,043,610,707	1,156,770,413
Total Non-current liabilities		40,289,690,736	47,982,841,064
Total liabilities		121,144,769,535	141,679,218,782
Equity			
Share capital	21	14,683,161,000	14,683,161,000
Other capital	21	109,408,821,733	109,408,821,733
Retained earnings	22	158,794,706,624	127,193,880,592
Total Equity		282,886,689,357	251,285,863,325
Total liabilities and equity	₩	404,031,458,892	392,965,082,107

See accompanying notes to the financial statements.

PI Advanced Materials Co., Ltd.
Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019

<i>(In won)</i>	Note	2020	2019
Revenue	5,23,34 ₩	261,788,779,258	223,682,314,032
Cost of sales	25,34	177,101,311,037	166,404,372,037
Gross profit		84,687,468,221	57,277,941,995
Selling, general and administrative expenses	24,25	24,678,033,928	23,675,510,902
Operating profit		60,009,434,293	33,602,431,093
Finance income	26	244,293,139	242,050,492
Finance costs	26	1,614,253,551	2,297,597,419
Other non-operating income	27	4,222,120,973	2,989,659,554
Other non-operating expenses	27	10,120,160,510	13,372,565,908
Profit before tax		52,741,434,344	21,163,977,812
Income tax expense	28	11,017,562,326	3,446,044,930
Profit for the year		41,723,872,018	17,717,932,882
Other comprehensive income (loss)		(872,654,556)	(772,340,598)
Items that will not be reclassified to profit or loss:			
Defined benefit plan remeasurement	18	(1,151,259,309)	(1,018,918,995)
Tax effect		278,604,753	246,578,397
Total items that will not be reclassified to profit or loss		(872,654,556)	(772,340,598)
Total comprehensive income	₩	40,851,217,462	16,945,592,284
Earnings per share	30		
Basic earnings per share	₩	1,421	603

See accompanying notes to the financial statements.

PI Advanced Materials Co., Ltd.
Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(In won)

	Share capital	Share premium	Losses on capital reduction	Retained earnings	Total equity
Balance at January 1, 2019	₩ 14,683,161,000	187,504,923,733	(78,096,102,000)	134,622,335,568	258,714,318,301
Dividend payment	-	-	-	(24,374,047,260)	(24,374,047,260)
Total comprehensive income (loss) for the year					
Profit for the year	-	-	-	17,717,932,882	17,717,932,882
Other comprehensive income (loss)	-	-	-	(772,340,598)	(772,340,598)
Balance at December 31, 2019	₩ 14,683,161,000	187,504,923,733	(78,096,102,000)	127,193,880,592	251,285,863,325

See accompanying notes to the financial statements.

PI Advanced Materials Co., Ltd.
Statements of Changes in Equity, Continued
For the years ended December 31, 2020 and 2019

(In won)

	Share capital	Share premium	Losses on capital reduction	Retained earnings	Total equity
Balance at January 1, 2020	₩ 14,683,161,000	187,504,923,733	(78,096,102,000)	127,193,880,592	251,285,863,325
Dividend payment	-	-	-	(9,250,391,430)	(9,250,391,430)
Total comprehensive income (loss) for the year					
Profit for the year	-	-	-	41,723,872,018	41,723,872,018
Other comprehensive income (loss)	-	-	-	(872,654,556)	(872,654,556)
Balance at December 31, 2020	₩ 14,683,161,000	187,504,923,733	(78,096,102,000)	158,794,706,624	282,886,689,357

PI Advanced Materials Co., Ltd.
Statements of Cash Flows
For the year ended December 31, 2020 and 2019
(In won)

	Note	2020	2019
Cash flows from operating activities			
Profit for the year	₩	41,723,872,018	17,717,932,882
Non-cash expense(income) adjustment		37,679,026,718	27,807,495,589
Tax expense		11,017,562,326	3,446,044,930
Finance costs		1,341,036,647	1,960,499,405
Retirement benefits		2,754,565,797	2,063,003,111
Loss(reversal) on valuation of inventories		(485,990,193)	988,286,562
Property, plant and equipment depreciation		19,741,876,402	17,550,293,407
Right-of-use depreciation		598,622,512	445,898,281
Amortization		1,195,968,221	921,657,659
Loss on disposal of property, plant and equipment		19,000	572,184,299
Impairment loss on property, plant and equipment		289,600,000	-
Impairment loss on advance payments		886,520,000	-
Bad (Reversal) debt expenses		46,966,220	42,321,024
Finance income		(244,293,139)	(240,903,571)
Loss(gain) on foreign currency translation		264,319,695	(114,665,620)
Gain on disposal of property, plant and equipment		-	(846,225)
Gain on valuation of financial instruments measured at fair value through profit or loss		-	(1,146,921)
Lease termination profit		(963,674)	-
Loss on derivatives transactions		4,946,631	-
Loss on valuation of derivatives		268,270,273	174,869,248
Changes in operating assets and liabilities:		5,131,612,973	(2,100,277,140)
Trade receivables		(5,117,489,909)	(4,489,085,961)
Non-trade receivables		172,830,877	(205,783,740)
Prepaid value added tax		475,605,005	4,057,075,461
Advance payments		11,571,900	16,833,905
Prepaid expenses		(15,354,888)	3,401,315
Inventories		15,602,609,585	3,840,550,118
Long-term prepaid expenses		(459,155,634)	(307,726,621)
Trade payables		2,290,170,327	(1,944,884,209)
Non-trade payables		(1,601,083,628)	(707,494,665)
Advance from customers		(8,462,014)	(309,058,857)
Accrued expense		160,422,368	(50,640,408)
Withholdings		(726,486,713)	587,888,008
Emissions liabilities		(360,000,000)	(269,999,992)
Provision for returns		(18,572,808)	13,257,077
Long-term accrued expense		(74,733,847)	143,110,972
Long-term Non-trade payables		61,574,141	98,447,873
Payment of severance pay		(3,877,618,316)	(933,474,407)
Succession of defined benefit liabilities		-	679,599,044
Plan assets		(1,384,213,473)	(2,322,292,053)
Interest received		166,093,319	244,852,460
Interest paid		(1,426,844,332)	(2,017,317,835)
Income taxes paid		(2,335,810,057)	(3,586,253,942)
Net cash provided by operating activities		80,937,950,639	38,066,432,014

PI Advanced Materials Co., Ltd.
Statements of Cash Flows
For the year ended December 31, 2020 and 2019
(In won)

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Cash flows from investing activities			
Decrease of short-term loans		258,018,681	179,430,835
Proceeds from equipment		-	29,078,300
Proceeds from structures		7,824,000	-
Decrease of financial assets measured at FVTPL		-	10,268,616,244
Decrease of deposit		1,000,000	16,220,000
Use of government deposit		145,000,000	-
Increase of long-term loans		(427,775,953)	(660,000,000)
Decrease of Derivative liabilities		(429,908,035)	-
Acquisition of equipment		(114,785,327)	-
Acquisition of construction in progress		(8,779,365,149)	(23,886,289,668)
Acquisition of Patents-Industrial		-	(170,803,944)
Acquisition of facility license		-	(51,100,000)
Increase of deposit		(1,022,937,906)	(90,168,000)
Acquisition of other intangible assets		(2,007,082,335)	(85,260,000)
Net cash used in investing activities		<u>(12,370,012,024)</u>	<u>(14,450,276,233)</u>
Cash flows from financing activities			
Borrowings of long-term borrowings		6,000,000,000	11,000,000,000
Net increase or decrease in short-term borrowings		2,241,162,599	20,142,073,957
Repayment of current portion of long-term borrowings		(19,624,990,000)	(12,833,160,000)
Repayment of lease liabilities		(587,776,000)	(441,181,000)
Payment of dividends		(9,250,391,430)	(24,374,047,260)
Net cash used in financing activities		<u>(21,221,994,831)</u>	<u>(6,506,314,303)</u>
Effects of exchange rate changes on cash and cash equivalents			
		(44,521,133)	228,168,463
Net increase(decrease) in cash and cash equivalents		<u>47,301,422,651</u>	<u>17,338,009,941</u>
Cash and cash equivalents at January 1, 2020 and 2019		<u>28,540,843,961</u>	<u>11,202,834,020</u>
Cash and cash equivalents at December 31	6 ₩	<u>75,842,266,612</u>	<u>28,540,843,961</u>

See accompanying notes to the financial statements.

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

1. Reporting Entity

PI Advanced Materials Co., Ltd.(formerly SKC Kolon PI Co., Ltd.) (the “Company”) was established on June 2, 2008 as a spot investment in SKC Co., Ltd. and Kolon Co., Ltd., manufacturing and selling polyimide films, and listed on the KOSDAQ market on the Korea Exchange in 2014.

Our largest shareholder was changed to Korea PI Holdings Co., Ltd. in March 2020, and on May 27, 2020, we changed our name from SKC Kolon PI Co., Ltd. to the current PI Advanced Materials Co., Ltd. As of the end of the current period, we have factories in Jincheon-gun, Chungcheongbuk-do, Gumi-si, Gyeongsangbuk-do, and the main shareholders are as follows as of the end of the current period with a paid-in capital of ₩14,683,161thousand.

Shareholder name	Number of shares(In shares)	Equity ratio(%)
Korea PI Holdings Co., Ltd.	15,877,400	54.07
Others	13,488,922	45.93
	29,366,322	100.00

2. Basis of Preparation

(1) Application of Accounting Standards

The financial statements have been prepared in accordance with Korean International Financial Reporting Standards (“K-IFRS”), as prescribed in Article 5, Clause 1 of *the Act on External Audits of Corporations in the Republic of Korea*.

(2) Basis of measurement

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

- Derivative financial instruments 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

(3) Functional and presentation currency

The financial statements are presented in Korean won, which is the Company’s functional currency which is the currency of the primary economic environment in which the Company operates.

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

2. Basis of Preparation, Continued

(4) Use of estimates and judgements

(i) Assumptions and estimation uncertainties

The preparation of the financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed consistently. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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 18 – Measurement of defined benefit obligations: key actual assumptions
- Notes 19 and 31 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources
- Note 28 – Measurement of deferred tax
- Note 29 – Measurement of lease liabilities

(ii) Measurement of fair value

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company 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 reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Company 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 asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

2. Basis of Preparation, Continued

(4) Use of estimates and judgements, continued

(ii) Measurement of fair value, continued

If the inputs used to measure the fair value of an asset or a liability fall into 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 Company 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 notes:

- Note 9 : Derivative financial instruments
- Note 32 : Financial instruments

3. Changes in Accounting policies

Except as described below, the Company applies the same accounting policies that were applied when preparing the annual financial statements for the fiscal year ending December 31, 2019.

Several amendments and interpretations below will be applied for the first time in the fiscal year beginning on or after January 1, 2020 but have no material impact on our financial statements.

- Revision of the conceptual system for financial reporting
- Amendments to K-IFRS 1103 Business Combination – Definition of a Business
- Amendments to K-IFRS 1001 Presentation of Financial Statements and K-IFRS 1008 Accounting policies, changes in accounting estimates and errors – Definition of Material
- Reform of interest rate indicators (Amendment of K-IFRS 1109 'Financial Products; Disclosure')

4. Significant Accounting Policies

The significant accounting policies applied by the Company in the preparation of its statements of its financial statements are include below and the Company has consistently applied the accounting policies to all period presented in these financial statements.

(1) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares when it has a short maturity with a specified redemption date.

4. Significant Accounting Policies, Continued

(2) Revenue from contracts with customers

The Company measures revenue minus value-added tax, returns, and discounts from the fair value of the consideration received or receivable from the customer. The Company recognize revenue when we can reliably measure the amount of revenue, future economic benefits are likely to flow into us, and meet our activity-specific revenue recognition requirements described in:

(i) Sale of goods

Revenue is recognized when the promised goods are transferred to the customer and the following performance obligations are satisfied

- The Company currently has claims for payment for assets
- The customer has legal ownership of the asset
- The Company transfers physical ownership of assets
- Significant risks and rewards of ownership of an asset exist in the customer's
- Customer takes over an asset

(ii) Rental revenues

Rental revenues from investment property are recognized over the lease term.

(3) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, gain or loss on sale of financial assets, changes in the fair value of financial assets measured at fair value through profit or loss.

Interest income recognized in profit or loss using the effective interest method, and dividend income is recognized in profit or loss on the date on which the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets measured at fair value through profit or loss.

Borrowing costs are recognized in profit or loss using the effective interest method.

(4) Foreign currency translation

Transactions in foreign currencies are translated to the respective functional currencies of the Company 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 exchange differences in monetary items are recognized in profit or loss in the period in which they occur, except for:

- Foreign exchange differences that relate to construction in progress for future production and are included in the cost of assets that are considered to be interest expense adjustments for foreign currency borrowings.
- Foreign exchange differences arising from transactions intended to hedge specific foreign currency risks.

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

4. Significant Accounting Policies, Continued

(5) Borrowing costs

The Company capitalize borrowing costs directly related to the acquisition, construction, or production of a qualifying assets as part of the cost of the assets until they are available for use or sale for their intended use. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale.

The temporary operating investment income from the borrowing borrowed for the purpose of acquiring qualifying assets is deducted from the cost of capitalizable borrowing.

Other borrowing costs are recognized in profit or loss as incurred.

(6) Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grants will be received.

Asset-related government grants are shown in the statement of financial position as a deduction when determining the carrying amount of the asset. The Government grants is recognized in profit or loss by reducing depreciation costs over the useful life of the relevant asset.

Revenue-related government grants are recognized as revenue over the period on a systematic basis to respond to expenses intended to be compensated.

Government grants received as compensation for expenses or losses already incurred or for immediate financial assistance provided to the Company without incurring future related costs are recognized in profit or loss in the period in which the right to receive them arises.

(7) Employee benefit

(i) 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 Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service. The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iii) Retirement benefits: defined contribution plans

In relation to defined contribution plans, when an employee has rendered service for a certain period, contributions to the defined contribution plan in exchange for the service are recognized in profit or loss, except when included in the cost of the asset.

4. Significant Accounting Policies, Continued

(7) Employee benefit, Continued

(iv) Retirement benefits: defined benefit plans

The defined benefit obligation is calculated by an independent insurance accounting firm by performing an actuarial assessment at the end of each reporting period using the projected unit credit method. The remeasurement component of the net defined benefit liability, which consists of actuarial gains and losses, the return on plan assets (excluding the amount included in the net interest on the net defined benefit liability (asset)) and the effect of the asset ceiling, is determined in the period in which the remeasurement component occurs. It is recognized in other comprehensive income and immediately reflected in the statement of financial position. The remeasurement component recognized in the statement of comprehensive income is recognized immediately as retained earnings and is not reclassified to profit or loss in subsequent periods. Past service cost is recognized during the period in which the plan was revised, and net interest is calculated by applying the discount rate on the net defined benefit liability (asset) at the beginning. The components of defined benefit cost are service cost (current service cost, past service cost and profit and loss on settlement), net interest expense (income) and remeasurement component.

The Company recognizes service costs and net interest expense (income) in profit or loss and remeasurement components in other comprehensive income. The profit or loss from the reduction of the system is treated as past service cost.

The defined benefit obligation in the financial statements represents the actual deficit and surplus of the defined benefit plan. The surplus calculated by these calculations is recognized as an asset to the limit of the present value of the economic benefits available in a way that reduces future contributions to the plan or refunds from the plan.

The Company recognizes an expense for termination benefits at the earlier of the date when the offer of termination benefits can no longer be withdrawn or when the costs of restructuring that entail payment of termination benefits are recognized. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(8) Income tax

Income tax expense comprises current and deferred tax.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under K-IFRS No.1037 'Provision, Contingent Liabilities and Contingent Assets'

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year. There is a difference between taxable income and pre-tax profit and loss on the statement of comprehensive income because of items of profit or loss that will be added or deducted in different taxable periods and items that are not taxable or non-deductible. The Company liabilities related to current tax are calculated based on tax rates and tax laws enacted or substantively enacted by the end of the reporting period.

Current tax assets and current tax liabilities are offset only when all of the following conditions are met:

- It has a legally enforceable right of set-off for the amount recognized
- The intention is to settle on a net basis, or to realize an asset and settle a liability at the same time.

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4. Significant Accounting Policies, Continued

(8) Income tax, Continued

(ii) Deferred tax

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities in financial statements and the tax base used to calculate taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences when it is probable that taxable income will be available for which the deductible temporary differences can be used. However, deferred tax liabilities are not recognized if the taxable temporary difference occurs when goodwill is first recognized, or if the asset or liability is not a business combination transaction and does not affect accounting profit and taxable income (tax loss) at the time of transaction. In addition, deferred tax assets are not recognized if the deductible temporary difference is not the business combination transaction in which the asset or liability is first recognized and do not affect accounting profit and taxable income (tax loss) at the time of transaction.

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and 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 that 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.

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, and It is offset only when there is an intention to realize the asset and settle the liability at the same time in each accounting period in the future when a significant amount of the deferred tax liability is settled or the deferred tax asset is recovered.

If a deferred tax liability or deferred tax asset arises from investment property measured using a fair value model, the carrying amount of the investment property is assumed to be recovered through sale. Therefore, if there is no rebuttal to this assumption, the measurement of deferred tax liabilities or deferred tax assets reflects the tax effect of recovering all of the carrying amounts of the investment property through sale. However, this assumption is disproved if the investment property is held under a business model that aims to consume most of the economic benefits inherent in the investment property over a period of time rather than holding it for sale as a depreciable asset.

(iii) Recognition of current and deferred taxes

Current tax and deferred tax are recognized as income or expenses and included in profit or loss, except when they arise from transactions, events or business combinations that are recognized directly as other comprehensive income or equity in the same or other period. In business combinations, the effect of corporate tax is included in the accounting for business combinations.

4. Significant Accounting Policies, Continued

(9) Inventories

Inventories are measured at the lower of acquisition cost and net realizable value. The cost is determined according to the average law except for the items that have not been arrived. The acquisition cost of inventories includes purchase cost, conversion cost, and other costs necessary to prepare the inventory in a usable state. Net realizable value is the expected additional completion cost and sales cost less than the expected sales price of the normal operating process.

The cost of sales is recognized as the carrying amount of the inventory in the period in which the revenue from the sale of the inventory is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in cost of sales in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in cost of sales in the period in which the reversal occurs.

(10) Non- derivative financial assets

(i) Classification

The Company classify financial assets into the following measurement categories:

- Financial assets measured at fair value through profit or loss ("FVTPL")
- Financial assets measured at fair value through other comprehensive income("FVOCI")
- Financial assets measured at amortized cost

Financial assets are classified based on the business model for managing financial assets and the contractual cash flow characteristics of financial assets.

The gain or loss on a financial asset measured at fair value is recognized in profit or loss or other comprehensive income. Investments in debt instruments are recognized in profit or loss or other comprehensive income, depending on the business model in which the asset is held. The Company reclassifies debt instruments only when the business model for managing financial assets changes.

Investments in equity instruments that are not held for trading may have the irrevocable option of specifying, on initial recognition, subsequent changes in fair value to be presented in other comprehensive income. Changes in the fair value of investments in unspecified equity instruments are recognized in profit or loss.

(ii) Measurement

The Company measures the financial asset at fair value on initial recognition and, if not FVTPL, the transaction costs directly related to the acquisition of the financial asset are added to its fair value. The transaction cost of FVTPL is treated as an expense in profit or loss.

A compound contract containing an embedded derivative takes into account the entire compound contract when determining whether the contractual cash flows consist only of principal and interest.

4. Significant Accounting Policies, Continued

(10) Non- derivative financial assets, Continued

(ii) Measurement, continued

① Debt instruments

Subsequent measurement of financial assets is based on the contractual cash flow characteristics of the financial assets and the business model for managing them. The Company classifies debt instruments into three categories:

(a) Financial assets measured at amortized cost

Under a business model that aims to hold contractual cash flows, assets that hold financial assets and whose contractual cash flows consist solely of principal and interest are measured at amortized cost. The gain or loss on a financial asset measured at amortized cost that is not subject to a hedging relationship is recognized in profit or loss when the financial asset is derecognized or impaired. Interest income on a financial asset recognized under the effective interest method is included in the 'financial income'.

(b) Financial assets measured at fair value through other comprehensive income

Financial assets that are held under a business model that achieves their objectives through both the receipt of contractual cash flows and the sale of financial assets, and whose contractual cash flows consist only of principal and interest, are measured at fair value through other comprehensive income. Except for impairment losses (reversals), interest income and foreign exchange gains and losses, the valuation gains or losses on a financial asset measured at fair value are recognized in other comprehensive income. When derecognizing a financial asset, the accumulated other comprehensive income recognized is reclassified from equity to profit or loss. Interest income on a financial asset recognized under the effective interest method is included in the 'financial income'. Foreign exchange gains and losses are presented as 'other income or other expenses' and impairment losses are presented as 'other expenses'.

(c) Financial assets measured at fair value through profit or loss

Debt instruments that are not amortized cost measurements or fair value through other comprehensive income financial assets are measured at fair value through profit or loss. The gain or loss on a debt instrument measured at fair value through profit or loss that does not apply to the hedging relationship is recognized in profit or loss.

② Equity instruments

The Company subsequently measures investments in all equity instruments at fair value. Any amount recognized in other comprehensive income for a long-term or strategic equity instrument that chooses to present changes in fair value in other comprehensive income shall not be reclassified into profit or loss when the instrument is derecognized. Dividend income from such equity instruments is recognized in profit or loss when the entity's right to a dividend is determined.

(iii) Impairment

The Company recognizes loss allowances for expected credit losses ("ECL") on;

- Financial assets measured at amortized cost
- Debt investments measured at FVOCI

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs;

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk has not increased significantly since initial recognition

4. Significant Accounting Policies, Continued

(10) Non- derivative financial assets, Continued

(iii) Impairment, continued

However, Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

If there is no reasonable expectation of a full or partial recovery of the financial asset's contractual cash flows, remove the asset. The Company expects no significant recovery from the amount written off.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(iv) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows of financial assets expire, or when the rights to the cash flows of financial assets are transferred and most of the risks and rewards of ownership of financial assets are transferred. If the Company neither retains nor transfers substantially all of the risks and rewards of owning a financial asset, the financial asset is derecognized if the financial asset is not controlled by the Company. If a financial asset continues to be controlled, it continues to be recognized to the extent of its continued involvement in the transferred asset, and related liabilities are recognized together.

If the right to cash flow of a financial asset is transferred but the Company retains most of the risks and rewards of owning the financial asset, the financial asset is continuously recognized and the sale amount received is recognized as a liability.

(v) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset only when the Company has the legal right to offset the assets and liabilities and intends to settle them on a net basis or to realize the assets and settle the liabilities.

(11) Property, plant and equipment

Property, plant and equipment are measured at cost, and after initial recognition, the carrying amount is the acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is the expenditure incurred directly in relation to the purchase or construction of the asset. It includes the costs of directly relating to the location and condition necessary for the asset to operate in the manner intended by management and the costs initially estimated to take to dismantle, remove or restore the asset.

Subsequent costs are likely to result in an inflow of future economic benefits from the asset, and only if those costs can be measured reliably are included in the carrying amount of the asset or recognized as a separate assets where appropriate, and the carrying amount of the replaced part is removed. On the other hand, costs incurred in relation to routine repairs and maintenance are recognized in profit or loss when incurred.

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4. Significant Accounting Policies, Continued

(11) Property, plant and equipment, Continued

Land is not depreciated, other than that, property, plant and equipment are depreciated at a straight-line basis over the estimated economic useful life of each individual asset given below.

	Useful lives (years)
Buildings	40
Structures	20
Machinery	16~20
Vehicles	5
Tools and equipment	5
Furniture and fixtures	5

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

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

The carrying amount of property, plant and equipment is removed from the statement of financial position when it is disposed of or when future economic benefits from use or disposal are not expected. 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.

(12) Investment property

Real estate held to earn rental or capital gains is classified as investment property. Investment property is measured at cost at initial recognition, including transaction costs incurred at acquisition. After initial recognition, the carrying amount is presented as the acquisition cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are likely to result in an inflow of future economic benefits from the asset, and only if those costs can be measured reliably are included in the carrying amount of the asset or recognized as a separate assets where appropriate, and the carrying amount of the replaced part is removed. On the other hand, costs incurred in relation to routine repairs and maintenance are recognized in profit or loss when incurred.

Among investment properties, land is not depreciated, and investment properties excluding land are amortized by the straight-line basis by applying 40 years depending on the economic useful life.

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

The carrying amount of investment property is removed from the statement of financial position if it is disposed of, or if the use of investment property is permanently suspended and no further future economic benefits can be expected from the disposal. Gains and losses on disposal of an item of investment property are determined by comparing the proceeds from disposal with the carrying amount of investment property and are recognized in profit or loss.

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4. Significant Accounting Policies, Continued

(13) Intangible assets

Intangible assets acquired individually with finite useful lives are recognized at cost less accumulated amortization and accumulated impairment losses, and amortization is recorded using the straight-line method over the estimated useful lives. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate. Individually acquired intangible assets with indefinite useful lives are recognized at cost less accumulated impairment losses.

The carrying amount of intangible assets is removed from the statement of financial position when it is disposed of or when future economic benefits from use or disposal are not expected. Gains and losses on disposal of an item of intangible assets are determined by comparing the proceeds from disposal with the carrying amount of intangible assets and are recognized in profit or loss.

Among intangible assets, intangible assets with indefinite useful lives are not amortized. Intangible assets other than these are amortized using the straight-line basis over the estimated useful lives of each individual asset listed below.

	Useful lives (years)
Industrial property rights	5, 10
Facility use rights	Indefinite, 10
Other intangible assets	5

(14) Impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are reviewed at the end of each reporting period to see if there are any indications of asset impairment. If there are indications of impairment, the Company estimates the recoverable amount of the asset in order to determine the amount of impairment loss. The Company estimates the recoverable amount for each individual asset, and if it is not possible to estimate the recoverable amount of the individual asset, it estimates the recoverable amount of the cash-generating unit to which the asset belongs. Joint assets are allocated to individual cash-generating units on a reasonable and consistent basis, and if they cannot be allocated to individual cash-generating units, they are allocated to the smallest group of cash-generating units that can be allocated on a reasonable and consistent basis.

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 recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. If the recoverable amount of the asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to recoverable amount and the reduced amount is recognized in profit or loss.

When an impairment loss recognized in a prior period is reversed, the carrying amount of the individual asset (or cash-generating unit) is determined as the lower of the adjusted recoverable amount and the carrying amount that would have been recorded if the impairment loss had not been recognized in the prior period, the reversal of the impairment loss is recognized immediately in profit or loss.

4. Significant Accounting Policies, Continued

(15) Non-derivative financial liabilities

(i) Classification and Measurement

Financial liabilities measured at fair value through profit or loss are financial instruments for trading purposes. Financial liabilities that are primarily borne for repurchase within a short period of time are classified as held for trading financial liabilities. In addition, derivatives that are not designated as hedging instruments or embedded derivatives separated from financial instruments are also classified as held for trading financial liabilities.

All non-derivative financial liabilities are classified as financial liabilities measured at amortized cost, except financial liabilities measured at fair value through profit or loss, financial guarantee contracts and financial liabilities arising when the transfer of financial assets does not meet the derecognition conditions. In the statement of financial position, they are represented as "trade payables", "borrowings" and "other payables".

(ii) Derecognition

Financial liabilities is derecognized from the statement of financial position when the contractual obligation is discharged, canceled or expired, and the terms of the existing financial liabilities are materially changed. The difference between the carrying amount of a financial liabilities that has been extinguished or transferred to a third party and the consideration paid (including non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(16) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, and is recognized when it is probable that the obligation will be satisfied 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. The discount rate is a pre-tax rate that reflects the current market assessment of the inherent risk of debt and the time value of money. An increase in the provision over time is recognized in profit or loss at financial cost.

If a third party is expected to reimburse some or all of the expenditure required to settle the provision, it is almost certain that it will be reimbursed if it fulfills its obligations and if the amount can be measured reliably, it recognizes the reimbursement as an 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.

Provision for returns is recognized when products or services are sold or provided, and is estimated by weighted average of all possible outcomes and related probabilities based on historical returns.

4. Significant Accounting Policies, Continued

(17) Emissions rights

The Company accounts for greenhouse gases emission right and the relevant liability as below pursuant to the Act on Allocation and Trading of Greenhouse Gas Emission.

(i) Greenhouse Gases Emission Right

Greenhouse Gases Emission Right consists of emission allowances which are allocated from the government free of charge or purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation are classified as an intangible asset and are initially measured at cost and after initial recognition, are carried at cost less accumulated impairment losses. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized through profit or loss in the respective reporting period.

The Company derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government in which the future economic benefits are no longer expected to be probable.

(ii) Emission liabilities

Emission liabilities is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when there is a high possibility of outflows of resources in performing the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at of the end of the reporting period.

(18) Derivative financial instruments

Derivatives are initially recognized at fair value. The gain or loss on valuation of changes in the fair value of derivatives is generally recognized in profit or loss.

The Company designates a particular derivative as a hedging instrument to hedge cash flows related to future forecast transactions that are likely to arise from changes in exchange rates and interest rates.

When a derivative is designated as a cash flow hedging instrument, the effective portion of the change in the fair value of the derivative is recognized in other comprehensive income and accumulated as a hedging reserve. The effective part of the change in the fair value of the derivative recognized in other comprehensive income is limited to the cumulative change in the fair value of the hedged item, determined based on the present value, from the inception of the hedge. The ineffectiveness of changes in the fair value of derivatives is recognized immediately in profit or loss.

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4. Significant Accounting Policies, Continued

(19) Lease

If, in exchange for consideration in a contract, the right to control the use of the identified asset is transferred for a period of time, the contract is a lease or includes a lease.

(i) As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

4. Significant Accounting Policies, Continued

(19) Lease, Continued

(i) As a lessee, continued

In the statement of financial position, the Company has presented right-of-use assets that does not meet the definition of investment property as a 'right-of-use assets' and a lease liabilities as a 'lease liabilities'.

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'revenue'.

(20) 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 Company 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 Company acquires and retains treasury shares, the consideration paid or received is directly recognized in equity.

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4. Significant Accounting Policies, Continued

(21) Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary stockholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

5. Operating segment

(1) In order to make decisions on resources to be allocated to the segment and to evaluate the performance of the segment, the Company classifies the segment on the basis of internal reports that are periodically reviewed by the chief operating decision maker.

(2) Information about regions

The Company operate in three major regions: Korea, China and Japan. Information on revenue from our external customers segmented by region is as follows:

(In thousands of won)

		Revenue from external customers	
		2020	2019
Korea	₩	94,400,775	77,966,243
China		145,904,661	123,168,410
Japan		4,719,770	4,950,879
Others		16,763,573	17,596,782
	₩	261,788,779	223,682,314

(3) Information about major customers

Finished goods and merchandise sales of ₩261,742,374 thousand (previous year: ₩223,644,538 thousand) include about ₩58,186,733 thousand (previous year: ₩55,015,378 thousand) for major customers who account for more than 10% of our sales.

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6. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

		2020	2019
Foreign currency ordinary deposits	₩	1,504,421	2,428,344
Ordinary deposits		19,337,846	1,212,500
Other deposits		55,000,000	24,900,000
	₩	<u>75,842,267</u>	<u>28,540,844</u>

7. Trade Receivables

(1) Trade receivables as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

		2020	2019
Total carrying amount of trade receivables (*)	₩	34,715,952	30,019,329
Allowance for doubtful accounts		(347,160)	(300,193)
Net carrying amount of trade receivables	₩	<u>34,368,792</u>	<u>29,719,136</u>

(*) The amount transferred to a trade receivable discount but not fully or partially met the derecognition conditions (₩4,333,622 thousand at the end of the current term, ₩2,203,098 thousand at the end of the previous term) is included (see Note 32).

(2) Changes in allowance for doubtful accounts of trade receivables as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

		2020	2019
Beginning balance	₩	300,193	257,872
Bad debt expense (reversal)		46,967	42,321
Ending balance	₩	<u>347,160</u>	<u>300,193</u>

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8. Other Receivables

Other receivables as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

		2020		2019	
		Current	Non-current	Current	Non-current
Loans	₩	285,371	1,077,391	215,614	977,391
Account receivable		64,283	-	219,341	-
Accrued income		33,953	-	1,311	-
Guarantee deposits		-	2,199,455	-	1,177,517
Present value discount		-	(121,981)	-	(44,775)
	₩	<u>383,607</u>	<u>3,154,865</u>	<u>436,266</u>	<u>2,110,133</u>

9. Derivative Financial Instruments

Derivatives held by the Company for trading purposes are interest rate swap contracts as of December 31, 2020 are summarized as follows:

(In thousands of won)

Description	Maturity	Contract amount	Buy	Sell	Derivative liabilities	Gain or loss on valuation of derivatives
Purpose for trading	2023-01-17	₩ 40,000,000	Fixed rate 3.05%	Variable rate 3M CD+0.6%	634,658	268,270

10. Inventories

(1) Inventories as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

		2020			2019		
		Acquisition cost	Provision for inventory valuation	Carrying amount	Acquisition cost	Provision for inventory valuation	Carrying amount
Finished goods	₩	11,169,998	(443,464)	10,726,534	26,446,550	(1,076,280)	25,370,270
Merchandise		663,362	-	663,362	1,372,325	-	1,372,325
Semi-finished goods		4,369,739	(440,147)	3,929,592	3,581,240	(293,321)	3,287,919
Raw materials		12,018,305	-	12,018,305	5,940,967	-	5,940,967
Sub materials		2,568,855	-	2,568,855	3,214,539	-	3,214,539
Materials-in-transit		1,673,191	-	1,673,191	7,510,438	-	7,510,438
	₩	<u>32,463,450</u>	<u>(883,611)</u>	<u>31,579,839</u>	<u>48,066,059</u>	<u>(1,369,601)</u>	<u>46,696,458</u>

PI Advanced Materials Co., Ltd.
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10. Inventories, Continued

- (2) Gain or loss on the valuation of inventories recognized at cost of sales for the year ended of December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020	2019
Loss on the valuation of inventories (reversal)	₩	(485,990)	988,287

11. Property, Plant and Equipment

- (1) Changes in property, plant and equipment for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020						
	Land	Buildings	Structures	Machinery and equipment	Construction in-progress	Others	Total
Acquisition cost:							
Beginning balance	₩ 10,711,238	39,436,114	1,026,452	331,193,288	7,826,376	4,854,147	395,047,615
Acquisitions (*1)	-	-	-	114,785	9,028,846	-	9,143,631
Disposals	-	-	(28,700)	-	(289,600)	(96,909)	(415,209)
Replacement (*2)	-	248,380	-	7,953,169	(12,572,806)	46,822	(4,324,435)
Ending balance	₩ 10,711,238	39,684,494	997,752	339,261,242	3,992,816	4,804,060	399,451,602
Accumulated depreciation and impairment loss:							
Beginning balance	-	(6,628,907)	(354,569)	(128,606,711)	-	(3,934,168)	(139,524,355)
Depreciation	-	(989,087)	(50,957)	(18,309,338)	-	(327,591)	(19,676,973)
Impairment loss	-	-	-	-	(289,600)	-	(289,600)
Disposals	-	-	2,153	-	289,600	96,891	388,644
Ending balance	₩ -	(7,617,994)	(403,373)	(146,916,049)	-	(4,164,868)	(159,102,284)
Government grants:							
Beginning balance	-	-	-	(118,291)	-	(28,758)	(147,049)
Increase	-	-	-	-	(145,000)	-	(145,000)
Decrease	-	-	-	13,433	-	8,703	22,136
Replacement	-	-	-	(145,000)	145,000	-	-
Ending balance	₩ -	-	-	(249,858)	-	(20,055)	(269,913)
Net carrying amount:							
Beginning balance	₩ 10,711,238	32,807,207	671,883	202,468,286	7,826,376	891,221	255,376,211
Ending balance	₩ 10,711,238	32,066,500	594,379	192,095,335	3,992,816	619,137	240,079,405

(*1) As of December 31, 2020, there were payables of ₩1,045,508 thousand related to the acquisition of construction in-progress.

(*2) The amount transferred from construction in-progress to intangible assets of ₩4,324,435 thousand is included.

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

11. Property, Plant and Equipment, Continued

- (1) Changes in property, plant and equipment for the year ended December 31, 2020 and 2019 are as follows, Continued:

(In thousands of won)

	2019						
	Land	Buildings	Structures	Machinery and equipment	Construction in-progress	Others	Total
Acquisition cost:							
Beginning balance	₩ 10,711,238	31,267,221	1,026,452	262,733,962	67,181,662	4,470,135	377,390,670
Acquisitions (*)	-	-	-	-	19,473,711	-	19,473,711
Disposals	-	-	-	(1,789,602)	-	(27,164)	(1,816,766)
Replacement	-	8,168,893	-	70,248,928	(78,828,997)	411,176	-
Ending balance	₩ 10,711,238	39,436,114	1,026,452	331,193,288	7,826,376	4,854,147	395,047,615
Accumulated depreciation and impairment loss:							
Beginning balance	-	(5,751,594)	(302,776)	(113,549,076)	-	(3,658,257)	(123,261,703)
Depreciation	-	(877,313)	(51,793)	(16,246,824)	-	(303,072)	(17,479,002)
Disposals	-	-	-	1,189,189	-	27,161	1,216,350
Ending balance	₩ -	(6,628,907)	(354,569)	(128,606,711)	-	(3,934,168)	(139,524,355)
Government grants:							
Beginning balance	-	-	-	(125,336)	-	(37,460)	(162,796)
Increase	-	-	-	-	-	-	-
Decrease	-	-	-	7,045	-	8,702	15,747
Ending balance	₩ -	-	-	(118,291)	-	(28,758)	(147,049)
Net carrying amount:							
Beginning balance	₩ 10,711,238	25,515,627	723,676	149,059,550	67,181,662	774,418	253,966,171
Ending balance	₩ 10,711,238	32,807,207	671,883	202,468,286	7,826,376	891,221	255,376,211

(*) As of December 31, 2019, there were payables of ₩1,045,508 thousand related to the acquisition of construction in-progress. The amount of borrowing cost capitalized for the year ended December 31, 2019, includes ₩ 358,118,000 thousand.

- (2) Collateral provision
Property, Plant and Equipment and investment property with a carrying amount of ₩171,195,969 thousand as of December 31, 2020 are provided as collateral for bank borrowings (See Note 17).

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

12. Intangible Assets

Changes in Intangible Assets for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020			
	Industrial property rights	Facility use rights	Other intangible assets	Total
Acquisition cost:				
Beginning balance	₩ 869,106	3,025,053	16,133,240	20,027,399
Acquisitions	-	-	2,007,083	2,007,083
Replacement (*)	522,453	4,324,435	-	4,846,888
Ending balance	₩ 1,391,559	7,349,488	18,140,323	26,881,370
Accumulated amortization and impairment loss:				
Beginning balance	(201,235)	(41,837)	(13,912,403)	(14,155,475)
Amortization	(179,651)	(108,111)	(908,207)	(1,195,969)
Ending balance	₩ (380,886)	(149,948)	(14,820,610)	(15,351,444)
Net carrying amount:				
Beginning balance	₩ 667,871	2,983,216	2,220,837	5,871,924
Ending balance	₩ 1,010,673	7,199,540	3,319,713	11,529,926

(*) The replacement amount for industrial property right was replaced by long-term advance expenses, and the replacement amount for facility use rights was replaced by construction in-progress.

(In thousands of won)

	2019			
	Industrial property rights	Facility use rights	Other intangible assets	Total
Acquisition cost:				
Beginning balance	₩ 698,302	2,973,953	16,047,980	19,720,235
Acquisitions	170,804	51,100	85,260	307,164
Ending balance	₩ 869,106	3,025,053	16,133,240	20,027,399
Accumulated amortization and impairment loss:				
Beginning balance	(69,776)	(41,837)	(13,122,204)	(13,233,817)
Amortization	(131,459)	-	(790,199)	(921,658)
Ending balance	₩ (201,235)	(41,837)	(13,912,403)	(14,155,475)
Net carrying amount:				
Beginning balance	₩ 628,526	2,932,116	2,925,776	6,486,418
Ending balance	₩ 667,871	2,983,216	2,220,837	5,871,924

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
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13. Investment property

- (1) Changes in Investment property for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020		
	Land	Building	Total
Acquisition cost:			
Beginning balance	₩ 1,298,604	3,462,399	4,761,003
Ending balance	₩ 1,298,604	3,462,399	4,761,003
Accumulated depreciation:			
Beginning balance	-	(996,289)	(996,289)
Depreciation	-	(87,039)	(87,039)
Ending balance	₩ -	(1,083,328)	(1,083,328)
Net carrying amount:			
Beginning balance	₩ 1,298,604	2,466,110	3,764,714
Ending balance	₩ 1,298,604	2,379,071	3,677,675

(In thousands of won)

	2019		
	Land	Building	Total
Acquisition cost:			
Beginning balance	₩ 1,298,604	3,462,399	4,761,003
Ending balance	₩ 1,298,604	3,462,399	4,761,003
Accumulated depreciation:			
Beginning balance	-	(909,250)	(909,250)
Depreciation	-	(87,039)	(87,039)
Ending balance	₩ -	(996,289)	(996,289)
Net carrying amount:			
Beginning balance	₩ 1,298,604	2,553,149	3,851,753
Ending balance	₩ 1,298,604	2,466,110	3,764,714

- (2) Gain or loss related to investment property

Gain or loss related to investment property recognized for the year ended of December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020	2019
Rental income from investment property	₩ 46,405	37,776
Operating expenses of investment property resulting from rental income	87,039	87,039

- (3) The investment property of the Company is evaluated using the cost method, the frequency of transactions in the market is very low, and it is not possible to apply an alternative estimation method because the expected future cash flow is not reliably predictable. The fair value of the investment property has not been calculated. Meanwhile, as of the end of the reporting period, the official land price of land classified as investment property exceeds the book value.

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

14. Other finance assets

Other non-current finance assets as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

		2020	2019
Long-term finance instruments (*)	₩	5,000	5,000

(*) Usage is limited as deposit for checking account

15. Other assets

Other assets as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

		2020		2019	
		Current	Non-current	Current	Non-current
Prepaid Value Added Tax	₩	1,465,649	-	1,941,254	-
Advance payments		11,699	-	909,791	-
Prepaid expenses		380,446	719,402	272,530	782,699
Others (*)		-	-	-	15,618,641
	₩	<u>1,857,794</u>	<u>719,402</u>	<u>3,123,575</u>	<u>16,401,340</u>

(*) In relation to the compensation paid during the current period, 50% of the compensation was received from SKC Co., Ltd. and Kolon Industries Co., Ltd., respectively (see Note 19).

16. Other payables

Other payables as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

		2020		2019	
		Current	Non-current	Current	Non-current
Non-trade Payables	₩	14,889,756	374,496	16,172,449	412,922
Present value discount		-	-	(7,302)	-
Accrued expense		3,571,696	669,115	3,534,298	743,848
	₩	<u>18,461,452</u>	<u>1,043,611</u>	<u>19,699,445</u>	<u>1,156,770</u>

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
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17. Borrowings

(1) Borrowings as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

Lender	Type of borrowing	Annual Interest rate (%)	2020	2019
Short-term Borrowings:				
Shinhan Bank	Trade receivable factoring	1.67~1.69	₩ 1,022,405	747,541
KEB Hana Bank		1.51~1.53	2,741,006	1,109,491
Woori Bank		1.39~1.41	570,211	346,066
Korea Development Bank	General loan	2.19	20,000,000	20,000,000
			<u>24,333,622</u>	<u>22,203,098</u>
Long-term Borrowings:				
		1.72~2.33	-	9,624,870
		3M CD + 0.6	29,999,880	40,000,000
Korea Development Bank	Facility purpose	Industrial financial debentures 1 year + 1.33	6,000,000	-
Less: current portion of long-term borrowings:			(13,333,280)	(19,624,990)
			<u>₩ 22,666,600</u>	<u>29,999,880</u>

(2) Details of assets provided as collateral for bank borrowings as of December 31, 2020 are as follows.

(In thousands of won, In USD)

Division	collateral assets	Carrying amount	collateral amount	Type of borrowing	Amount of borrowing	Collateral rights holder
Property, plant and equipment, Investment property	Land and buildings, etc.	₩ 171,195,969	72,000,000, USD 45,000,000	Won and foreign currency, Facility purpose/general loan	55,999,880	Korea Development Bank

PI Advanced Materials Co., Ltd.
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18. Employee Benefits

- (1) The amounts of expenses recognized in employee benefits for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020	2019
Salary (*)	₩	29,341,522	31,275,074
Expenses related to the defined benefit plans		2,754,566	2,063,003
Expenses related to the defined contribution plans		183,292	26,352
Welfare expense		6,118,136	6,065,302
	₩	<u>38,397,516</u>	<u>39,429,731</u>

(*) It includes salary recognized as construction in-progress.

- (2) Changes in net defined benefit liabilities for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		Defined benefit obligation		Fair value of plan assets		Net defined benefit liabilities	
		2020	2019	2020	2019	2020	2019
Beginning balance	₩	21,000,808	17,844,923	(19,878,326)	(17,228,196)	1,122,482	616,727
Recognition in profit or loss:							
Current service cost		2,725,895	2,047,339	-	-	2,725,895	2,047,339
Interest cost (revenue)		537,052	420,427	(508,381)	(404,763)	28,671	15,664
	₩	<u>3,262,947</u>	<u>2,467,766</u>	<u>(508,381)</u>	<u>(404,763)</u>	<u>2,754,566</u>	<u>2,063,003</u>
Recognition in other comprehensive income:							
Effect of changing discount rates		-	315,814	-	-	-	315,814
Financial assumptions		(65,830)	(215,443)	211,712	76,925	145,882	(138,518)
Adjust other experiences		1,005,377	841,623	-	-	1,005,377	841,623
	₩	<u>939,547</u>	<u>941,994</u>	<u>211,712</u>	<u>76,925</u>	<u>1,151,259</u>	<u>1,018,919</u>
Other:							
Contributions paid		-	-	(5,000,000)	(2,496,838)	(5,000,000)	(2,496,838)
Payroll		(3,877,618)	(933,474)	3,567,786	810,213	(309,832)	(123,261)
Effect of transferring to and from affiliates		-	679,599	-	(679,599)	-	-
Management fee		-	-	48,000	43,932	48,000	43,932
	₩	<u>(3,877,618)</u>	<u>(253,875)</u>	<u>(1,384,214)</u>	<u>(2,322,292)</u>	<u>(5,261,832)</u>	<u>(2,576,167)</u>
Ending balance(*)	₩	<u>21,325,684</u>	<u>21,000,808</u>	<u>(21,559,209)</u>	<u>(19,878,326)</u>	<u>(233,525)</u>	<u>1,122,482</u>

(*) The excess amount of plan assets as of December 31, 2020, are classified as net defined benefit assets in the statement of financial position.

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
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18. Employee Benefits, Continued

- (3) Plans assets as of December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020	2019
Cash and cash equivalents	₩	21,553,942	19,873,059
other		5,267	5,267
	₩	<u>21,559,209</u>	<u>19,878,326</u>

The Company invests most of its plan assets in principal and interest-guaranteed products.

- (4) The major actuarial assumptions used in the valuation of defined benefit obligation as of December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	2.727%	2,683%
Expected salary growth	5.00%	5.00%

- (5) As of December 31, 2020, when all other assumptions are maintained, if each significant actuarial assumption changes within a reasonable range, the impact on the defined benefit obligation is as follows:

(In thousands of won)

		2020	
		Increase	Decrease
Discount rate (1% movement)	₩	(1,396,708)	1,606,620
Expected salary growth (1 % movement)		1,554,182	(1,380,976)

Since there is a correlation between actuarial assumptions, the sensitivity analysis above will not represent the actual change in the defined benefit obligation because changes in the assumptions will not occur independently. In addition, in the sensitivity analysis above, the present value of the defined benefit obligation was measured using the projected unit credit method applied to measure the defined benefit obligation in the statement of financial position.

PI Advanced Materials Co., Ltd.
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19. Provisions

Provisions for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020	2019
Emission liabilities (*1)	₩	30,000	390,000
Provision for returns		10,341	28,914
Provision for litigation (*2)		-	15,618,641
	₩	<u>40,341</u>	<u>16,037,555</u>

(*1) In accordance with the Act on Allocation and Trading of Greenhouse Gas Emission Permits and the Enforcement Decree of the Act, The Company has a present obligation to emit greenhouse gases and submit emission permits to the government, and there is a very high possibility that resources will be leaked in order to fulfill the obligation, the obligation was recognized as a provision. The Company have been granted free allocation of 59,501 KAU of emission permits from the government for the implementation in 2020. As of the end of the current term, The Company have recognized a provision for the estimated emissions in 2020 that exceed the free allocation right.

(*2) In accordance with KANEKA CORPORATION's ruling on a lawsuit against infringement of US patents related to our sales in the US, compensation was paid during the current year, and 50% of the compensation was compensated by SKC Corp. and Kolon Industries, respectively (See notes 15 and 31).

20. Other liabilities

Other liabilities for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020	2019
Deposits	₩	1,468,945	2,195,432
Advance received		14,904	23,366
	₩	<u>1,483,849</u>	<u>2,218,798</u>

PI Advanced Materials Co., Ltd.
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21. Capital and Other paid-in capital components

- (1) Capital as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

	2020	2019
Number of authorized shares	100,000,000 shares	100,000,000 shares
Face amount per share	₩ 0.5	0.5
Number of issued shares	29,366,322 shares	29,366,322 shares
Capital	₩ 14,683,161	14,683,161

- (2) Other paid-in capital for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020	2019
Share premium	₩ 187,504,924	187,504,924
Losses on capital reduction(*)	(78,096,102)	(78,096,102)
	₩ 109,408,822	109,408,822

(*)In 2010 and 2014, The Company carried out stock redemption, resulting in a loss on capital reduction of ₩43,368,702 thousand and ₩34,727,400 thousand, respectively.

22. Retained Earnings

- (1) Retained earnings as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

	2020	2019
Legal reserve(*)	₩ 7,341,581	7,341,581
Unappropriated retained earnings	151,453,126	119,852,300
	₩ 158,794,707	127,193,881

(*)According to the Commercial Act, 10% or more of the profit dividend in money is to be accumulated as a legal reserve for each settlement period until the company reaches 50% of its capital as a legal reserve. The legal reserve cannot be distributed in cash and can only be used to compensate for losses carried forward and transfer capital by resolution of the general shareholders' meeting.

- (2) Changes in retained earnings for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020	2019
Beginning balance	₩ 127,193,881	134,622,336
Profit for the period	41,723,872	17,717,933
Remeasurement factors for defined benefit plans	(872,655)	(772,341)
Dividend	(9,250,391)	(24,374,047)
Ending balance	₩ 158,794,707	127,193,881

PI Advanced Materials Co., Ltd.
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22. Retained Earnings, Continued

(3) Changes in retained earnings for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

Division	Types of stock	Total number of issued shares	Dividend shares	Dividend per share	Dividend total
2020	Ordinary share	29,366,322 shares	29,366,322 shares	315 won	₩ 9,250,391
2019	Ordinary share	29,366,322 shares	29,366,322 shares	830 won	24,374,047

(4) Statement of appropriation of retained earnings for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020	2019
	Appropriation scheduled date 2021-03-19	Appropriation confirmed date 2020-02-28
I. Unappropriated retained earnings		
Unappropriated retained earnings to be carried from previous year	₩ 110,601,909	102,906,708
Profit for the period	41,723,872	17,717,933
Remeasurement factors for defined benefit plans	(872,655)	(772,341)
	<u>151,453,126</u>	<u>119,852,300</u>
II. Appropriation of retained earnings		
Dividend		
Dividend per share: 2020: 711won	20,879,455	9,250,391
2019: 315won	<u>20,879,455</u>	<u>9,250,391</u>
III. Unappropriated retained earnings to be carried over to subsequent year	₩ <u>130,573,671</u>	<u>110,601,909</u>

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

23. Revenue

(1) Revenue for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020	2019
Revenue from finished goods	₩	255,437,332	217,250,753
Revenue from merchandise		6,305,042	6,393,785
Rental income		46,405	37,776
	₩	<u>261,788,779</u>	<u>223,682,314</u>

(2) Contracts with customers

(i) Revenue streams

Details of source of revenue as of December 31, 2020 and 2019 are summarized as follows:

(In thousands of won)

		2020	2019
Revenue from contracts with customers	₩	261,788,779	223,682,314

(ii) Disaggregation of revenue

The disaggregated revenue for the year ended December 31, 2020 and 2019 is as follow:

(In thousands of won)

		2020	2019
Region:			
Republic of Korea	₩	94,400,775	77,966,243
China		145,904,661	123,168,410
Japan		4,719,770	4,950,879
Others		16,763,573	17,596,782
	₩	<u>261,788,779</u>	<u>223,682,314</u>
Revenue recognition method:			
Recognized when the goods are delivered	₩	261,742,374	223,644,538
Recognized over time as services are provided		46,405	37,776

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

24. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020	2019
Salaries	₩	6,092,240	5,549,369
Retirement benefits		664,223	498,771
Employee welfare		1,239,885	1,308,310
Travel		136,311	615,400
Automobile maintenance		68,681	82,240
Telecommunications		125,145	124,503
Taxes and dues		59,197	48,602
Rent		55,409	109,559
Depreciation		497,977	446,234
Amortization		889,473	771,465
Insurance		133,818	101,488
Entertainment		261,116	391,170
Domestic transportation		172,843	142,550
Export expenses		1,957,061	1,816,065
Office expenses		241,560	185,223
Advertising		74,765	310,790
Education and training		172,587	137,537
Bad debt expense		46,966	42,321
Ordinary development costs		8,291,174	9,267,113
Utility expenses		245	883
Conference		22,981	32,174
Samples expense		275,008	386,613
Service charges		3,199,369	1,307,131
	₩	<u>24,678,034</u>	<u>23,675,511</u>

25. Nature of Expenses

The classification of expenses by nature for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020	2019
Changes in finished goods and semi-finished goods	₩	11,923,741	1,666,152
Changes in merchandise		5,450,233	5,547,091
Use of raw materials and sub materials		75,313,905	82,000,798
Employee benefits		38,035,764	38,405,463
Energy expenses		18,141,810	17,706,316
Depreciation and amortization		21,536,467	18,917,849
Service charges and sales commissions		17,639,764	15,645,799
Other expenses		13,737,661	10,190,414
	₩	<u>201,779,345</u>	<u>190,079,882</u>

Total expenses consist of cost of sales and selling, general and administrative expenses.

PI Advanced Materials Co., Ltd.
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26. Finance Income and Finance Costs

Finance income and finance costs for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020		
	Financial Instruments measured at FVTPL	Financial Instruments measured at amortized cost	Total
Finance income:			
Interest income	₩ -	244,293	244,293
	₩ -	244,293	244,293
Finance costs:			
Interest expense	₩ -	1,341,037	1,341,037
Losses on valuation of derivatives	268,270	-	268,270
Losses on transaction of derivatives	4,947	-	4,947
	₩ 273,217	1,341,037	1,641,254
Net financial gain or loss recognized in profit or loss	₩ (273,217)	(1,096,744)	(1,369,961)

(In thousand of won)

	2019		
	Financial Instruments measured at FVTPL	Financial Instruments measured at amortized cost	Total
Finance income:			
Interest income	-	240,904	240,904
Gain on valuation of financial assets measured at FVTPL	₩ 1,147	-	1,147
	₩ 1,147	240,904	242,051
Finance costs:			
Interest expense	₩ -	1,960,499	1,960,499
Losses on valuation of derivatives	174,869	-	174,869
Losses on transaction of derivatives	162,229	-	162,229
	₩ 337,098	1,960,499	2,297,597
Net financial gain or loss recognized in profit or loss	₩ (335,951)	(1,719,595)	(2,055,546)

PI Advanced Materials Co., Ltd.
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27. Other Non-operating Income and Other Non-operating Expenses

Other non-operating income and other non-operating expenses for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020	2019
Other non-operating income:		
Foreign exchange difference (*1)	3,998,409	2,815,084
Gain on disposal of property, plant and equipment ₩	-	846
Gain on Lease termination	964	-
Miscellaneous income	222,748	173,730
₩	<u>4,222,121</u>	<u>2,989,660</u>
Other non-operating expenses:		
Foreign exchange difference (*1) ₩	5,579,538	2,543,415
Loss on disposal of property, plant, and equipment	19	572,184
Impairment loss on Advance Payments	886,520	-
Impairment loss on property, plant, and equipment	289,600	-
Donation	43,699	88,293
Miscellaneous expenses (*2)	3,320,784	10,168,674
₩	<u>10,120,160</u>	<u>13,372,566</u>
Total other non-operating profit and loss	(5,898,039)	(10,382,906)

(*1) The Company recognizes foreign exchange differences arising from foreign currency transactions and translations as other non-operating income and other non-operating expenses.

(*2) The legal costs of the case described in Note 31 are included.

28. Income Tax Expense

(1) The calculation details of income tax expense for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020	2019
Current tax expense ₩	9,490,942	2,078,177
Changes in deferred income tax due to temporary differences	1,248,016	1,104,072
Income tax in arrears for prior periods (refundable amount)	-	17,217
Total income tax expense	<u>10,738,958</u>	<u>3,199,466</u>
Income tax expense added to or subtracted from capital	278,605	246,578
Income tax expense ₩	<u>11,017,563</u>	<u>3,446,044</u>

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
For the years ended December 31, 2020 and 2019

28. Income Tax Expense, Continued

- (2) Reconciliation of effective tax rate for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020	2019
Profit before income tax	₩	52,741,434	21,163,978
Income tax using the Company's statutory tax rate		12,301,427	4,659,683
Adjustment for:			
non-deductible expenses		57,197	109,627
Tax credits		(1,589,649)	(1,461,227)
Income tax in arrears for prior periods (refund amount)		-	17,217
Others		248,588	120,744
Income tax expense	₩	11,017,563	3,446,044
Effective tax rate		20.89%	16.28%

- (3) Income taxes related to items recognized in other comprehensive income for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020			2019		
		Amount before tax	Tax effect	After-tax amount	Amount before tax	Tax effect	After-tax amount
Remeasurement of defined benefit obligations	₩	(1,151,260)	278,605	(872,655)	(1,018,919)	246,578	(772,341)

PI Advanced Materials Co., Ltd.
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For the years ended December 31, 2020 and 2019

28. Income Tax Expense, Continued

- (4) Changes in deferred tax assets (liabilities) for the year ended December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020		
		Beginning balance	Amount recognized in profit or loss	Amount recognized in other comprehensive income
				Ending balance
Deferred tax on temporary differences				
Accrued income	₩	(318)	(7,899)	-
Provision for inventory valuation		331,443	(117,610)	-
Fair value of plan assets		(4,735,953)	(153,600)	-
Provision for retirement benefits		4,735,953	(125,005)	278,605
Yearly allowance		656,702	28,940	-
Depreciation		(16,435,120)	(1,024,833)	-
Impairment loss on intangible assets		10,124	-	-
Long-term accrued expenses		180,012	(18,086)	-
Emission liabilities		94,380	(87,120)	-
Derivatives liabilities		191,506	(37,919)	-
Provision for returns		6,997	(4,495)	-
Other		2,878	21,006	-
	₩	<u>(14,961,396)</u>	<u>(1,526,621)</u>	<u>278,605</u>
				<u>(16,209,412)</u>

(In thousands of won)

		2019		
		Beginning balance	Amount recognized in profit or loss	Amount recognized in other comprehensive income
				Ending balance
Deferred tax on temporary differences				
Accrued income	₩	(5,743)	5,425	-
Provision for inventory valuation		92,278	239,165	-
Fair value of plan assets		(4,106,098)	(629,855)	-
Provision for retirement benefits		4,106,098	383,277	246,578
Annual allowance		635,493	21,209	-
Depreciation		(15,047,552)	(1,387,568)	-
Impairment loss on intangible assets		10,124	-	-
Long-term accrued expenses		145,379	34,633	-
Emission liabilities		159,720	(65,340)	-
Derivatives liabilities		149,188	42,318	-
Provision for returns		3,789	3,208	-
Other		-	2,878	-
	₩	<u>(13,857,324)</u>	<u>(1,350,650)</u>	<u>246,578</u>
				<u>(14,961,396)</u>

- (5) As of the end of the reporting period, there are no deferred tax assets(liabilities) that The Company has not recognized.

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
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29. Lease

(1) Leases as lessee

Information about leases for which the Company is a lessee is presented below.

(i) Right-of-use Assets

(In thousands of won)

		2020		
		Buildings	Vehicles	Total
Beginning balance	₩	606,896	312,585	919,481
Depreciation		(398,079)	(200,544)	(598,623)
Additions to right-of-use assets (lease liabilities)		-	297,062	297,062
Additions to right-of-use assets (Rental deposit—present value discount)		30,068	-	30,068
Termination of the lease contract		-	(48,626)	(48,626)
Ending balance	₩	238,885	360,477	599,362

(In thousands of won)

		2019		
		Buildings	Vehicles	Total
Beginning balance	₩	9,268	298,862	308,130
Depreciation		(230,538)	(215,360)	(445,898)
Additions to right-of-use assets (lease liabilities)		772,754	229,083	1,001,837
Additions to right-of-use assets (Rental deposit—present value discount)		55,412	-	55,412
Ending balance	₩	606,896	312,585	919,481

(ii) Amounts recognized in profit or loss

(In thousands of won)

		2020	2019
Interest on lease liabilities	₩	29,780	25,640
Expenses relating to short-term lease		-	171,749
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		68,773	15,664
	₩	98,553	213,053

(iii) Amounts recognized in statement of cash flows

(In thousands of won)

		2020	2019
Total cash outflow for leases	₩	656,549	628,594

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29. Lease, Continued

(2) Leases as lessor

The Company is providing investment property for lease. For such leases, the Company classifies them as operating leases because most of the risks and rewards of ownership of the asset are not transferred (See Note 13).

The following is the maturity analysis table for operating lease payments, and the lease payments to be received after the end of the reporting period are presented in undiscounted amounts.

(In thousands of won)

		<u>2020</u>	<u>2019</u>
Within a year	₩	8,853	37,776

30. Earnings per Share

(1) Earnings per share for the year ended December 31, 2020 and 2019 are as follows:

(In won except share data)

		<u>2020</u>	<u>2019</u>
Ordinary shares profit for the period	₩	41,723,872,018	17,717,932,882
Weighted average number of ordinary shares outstanding		29,366,322 shares	29,366,322 shares
Basic earnings per share	₩	<u>1,421</u>	<u>603</u>

(2) Calculation history of weighted average number of ordinary shares outstanding

(In shares)

		<u>2020</u>		
	<u>Date</u>	<u>Number of shares</u>	<u>Weighted average (In days)</u>	<u>Weighted average number of shares</u>
Beginning balance	2020-01-01	29,366,322	366/366	29,366,322
Total				<u>29,366,322</u>

(In shares)

		<u>2019</u>		
	<u>Date</u>	<u>Number of shares</u>	<u>Weighted average (In days)</u>	<u>Weighted average number of shares</u>
Beginning balance	2019-01-01	29,366,322	365/365	29,366,322
Total				<u>29,366,322</u>

(3) As the Company has no dilutive securities as of December 31, 2020 and 2019, diluted earnings per share has not been calculated.

PI Advanced Materials Co., Ltd.
Notes to the Financial Statements
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31. Commitments and Contingencies

- (1) The details of limit agreements with financial institutions as of December 31, 2020 are summarized as follows:

(In thousands of won, USD)

Financial institutions	Division		Amount
KEB Hana Bank	General loan	₩	10,000,000
	Credit line		USD 3,000,000
	Accounts receivable loan		5,000,000
Shinhan Bank	General loan		20,000,000
	Bills bought		USD 1,000,000
	Opening Import L/C		USD 1,000,000
Woori Bank	General loan		10,000,000
	Credit line		USD 1,500,000
Korea Development Bank(*)	Facility Loan		55,000,000
	General loan		20,000,000
Total	KRW loan agreements	₩	115,000,000
	Foreign currency loan agreements		USD 6,500,000
	Accounts receivable loan		5,000,000

(*) Property, plant and equipment and investment property with a carrying amount of ₩171,195,969 thousand as of December 31, 2020 are provided as collateral.

- (2) As of December 31, 2020, the details of payment guarantees provided by the Company are as follows.

(In thousands of won)

Guaranteed organization	Place of guarantee	Payment guarantee amount	Remark
PI Advanced Materials Co., Ltd. employee stockholders association	Korea securities finance Corp.	₩ 136,279	Employees stock acquisition loan joint guarantee

- (3) As of December 31, 2020, the details of the guarantees that the Company receive from others are as follows.

(In thousands of won)

Guaranteed organization	Place of guarantee	Payment guarantee amount	Remark
PI Advanced Materials Co., Ltd.	Seoul guarantee insurance company	₩ 1,085,150	Performance guarantee

- (4) Litigation
During 2010, KANEKA CORPORATION ("KANEKA") filed a US patent infringement lawsuit in US court for our sales in the US, and the lawsuit is currently in progress. The lawsuit is not ultimately concluded, but the jury reached a verdict on November 19, 2015 that some of our products indirectly did infringe KANEKA's patents, thus requiring the compensation of approximately USD 13.5 million as compensatory damages for the profits. Accordingly, the Company have recorded litigation provisions in accordance with the amount of the verdict of the jury. The judgment in that part has been finalized, and the amount was paid in accordance with KANEKA's filing of a claim for the enforcement judgment. Such case will be followed by the procedure for Accounting for Supplemental Damages, but the related schedule has not yet been settled. As for the amount of additional damage, it is impossible to estimate the amount due to the large difference in the positions of the damage experts and the parties to the dispute.

PI Advanced Materials Co., Ltd.
Notes to Financial Statements
For the years ended December 31, 2020 and 2019

32. Financial Instruments

- (1) The carrying amounts and fair values of financial assets and financial liabilities by category as of December 31, 2020 are as follows:

(In thousands of won)

		Financial assets		
		Financial assets measured at FVTPL	Financial assets measured at amortized cost	Total carrying amounts
				Fair values
Cash and cash equivalents	₩	-	75,842,267	75,842,267
Trade receivables		-	34,368,792	34,368,792
Other receivables		-	3,538,472	3,538,472
Other non-current financial assets		-	5,000	5,000
	₩	-	113,754,531	113,754,531

(In thousands of won)

		Financial liabilities		
		Financial liabilities measured at FVTPL	Financial liabilities measured at amortized cost	Total carrying amounts
				Fair values
Trade payables	₩	-	13,729,814	13,729,814
Other payables		-	19,505,063	19,505,063
Borrowings		-	60,333,502	60,333,502
Lease liabilities		-	576,069	576,069
Derivative financial liabilities		634,658	-	634,658
	₩	634,658	94,144,448	94,779,106

PI Advanced Materials Co., Ltd.
Notes to Financial Statements
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32. Financial Instruments, Continued

- (2) The carrying amounts and fair values of financial assets and financial liabilities by category as of December 31, 2019 are as follows:

(In thousands of won)

		Financial assets		
		Financial assets measured at FVTPL	Financial assets measured at amortized cost	Total carrying amounts
				Fair values
Cash and cash equivalents	₩	-	28,540,844	28,540,844
Trade receivables		-	29,719,136	29,719,136
Other receivables		-	2,546,398	2,546,398
Other non-current financial assets		-	5,000	5,000
	₩	-	60,811,378	60,811,378

(In thousands of won)

		Financial liabilities		
		Financial liabilities measured at FVTPL	Financial liabilities measured at amortized cost	Total carrying amounts
				Fair values
Trade payables	₩	-	11,499,932	11,499,932
Other payables		-	20,856,216	20,856,216
Borrowings		-	71,827,968	71,827,968
Lease liabilities		-	886,593	886,593
Derivative financial liabilities		791,349	-	791,349
	₩	791,349	105,070,709	105,862,058

- (3) The disclosure details by level according to the fair value hierarchy of financial instruments measured at fair value as of December 31, 2020 and 2019 are as follows:

(In thousands of won)

		2020			
		Level 1	Level 2	Level 3	Total
Derivative liabilities					
_held for trading	₩	-	634,658	-	634,658

(In thousands of won)

		2019			
		Level 1	Level 2	Level 3	Total
Derivative liabilities					
_held for trading	₩	-	791,349	-	791,349

For financial instruments recognized at amortized cost for which the carrying amount is determined to be a reasonable approximation of fair value, the carrying amount is disclosed at fair value.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Separate, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

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Notes to Financial Statements
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32. Financial Instruments, Continued

- (3) The disclosure details by level according to the fair value hierarchy of financial instruments measured at fair value as of December 31, 2020 and 2019 are as follows, continued:

Instruments included in level 1 are comprised primarily of listed stocks.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fairly value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The valuation techniques used to measure the fair value of financial instruments at Level 2 are as follows.

- Market-proven inputs.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period, with the resulting value discounted back to present value.

The main valuation technique for Level 2 financial instruments is the discounted cash flow model, and the Company calculates the fair value of the custodial financial institution's valuation based on this valuation technique.

- (4) Transfer of financial assets, etc.

The transfer of financial assets of the Company is carried out in a form that is not entirely derecognized, and the counterparty to the related liabilities has the right to recourse to the transferred assets. As of December 31, 2020 and 2019, the transfer of financial assets of the Company is the transfer of trade receivables, and related liabilities are recorded as short-term borrowings. Details related to this are as follows:

(In thousands of won)

		2020			2019		
		Transfer assets	Related liabilities	Net position	Transfer assets	Related liabilities	Net position
Carrying amount	₩-	4,333,622	4,333,622	-	2,203,098	2,203,098	-
Fair value		4,333,622	4,333,622	-	2,203,098	2,203,098	-

PI Advanced Materials Co., Ltd.
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33. Financial risk management

In relation to financial instruments, the Company is exposed to credit risk, liquidity risk and market risk. This note discloses information on the above risks to which the Company are exposed, the Company risk management goals, policies, risk assessment and management procedures, and capital management. Additional quantitative information is disclosed throughout these financial statements.

(1) Risk management system

The Board of Directors is responsible for establishing and overseeing our risk management system.

The Company's risk management policy has been established to identify and analyze the risks the Company faces, establish appropriate risk limits and controls, and ensure that risks do not exceed these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company activities. Through our management standards, procedures and training, the Company aims to create a rigorous and structured control environment where all employees understand their roles and responsibilities.

The Company's Audit Committee oversees how management manages compliance with the company's risk management policies and procedures, and reviews the appropriateness of our risk management system.

(2) Credit risk

Credit risk refers to the risk that the Company will incur financial loss if a customer or counterparty fails to fulfil its contractual obligations for financial instruments. It arises mainly from trade receivables to customers.

The Company's exposure to credit risk is primarily affected by the characteristics of each customer. Customer distribution, such as bankruptcy risk in the industry and country in which the customer operates, does not significantly affect credit risk. For the years ended December 31, 2020 and 2019, the proportion of sales to major customers who account for more than 10% of our sales was 22.23% and 24.60% of sales, respectively, but credit risk is not concentrated geographically.

The Company has established a credit policy that requires each new customer to be individually reviewed for credit before determining the standard payment criteria. When reviewing, external ratings and bank ratings are taken into consideration. The highest possible purchase limit is set for each individual customer without a separate request for approval, and this limit is reviewed on a semi-annual basis. Customers classified as "high risk" are included in the restricted customer list and managed, and sales are possible only when payment is made in advance.

The Company has established provisions for losses expected to occur on trade receivables, and historical experience shows that losses on trade receivables are not significant.

The maximum exposure to credit risk of Financial assets measured at amortized cost is similar to the carrying amount. The maximum exposure to credit risk due to payment guarantees for the employee stock loan is ₩136,279 thousand.

PI Advanced Materials Co., Ltd.
Notes to Financial Statements
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33. Financial risk management, Continued

(3) Liquidity risk

Liquidity risk is the risk that the Company will have difficulty meeting its obligations related to financial liabilities. The Company's liquidity management approach is to ensure that the Company has sufficient liquidity to repay the Company liabilities at maturity without the risk of incurring unacceptable losses or damaging the company's reputation, even in difficult financial situations.

The Company calculates the cost of products and services at the cost of each activity. These methods help monitor cash flow requirements and optimize cash return on investment. In general, the Company has sufficient cash and cash equivalents to cover estimated operating costs for 60 days, including repayment of financial liabilities. This does not include potential effects due to extreme conditions that cannot be reasonably foreseen.

- (i) The contractual maturities of financial liabilities held by the Company as of December 31, 2020 are as follows.

(In thousands of won)

		2020				
	Carrying amount	Contractual cash flow	Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years
Non-derivative financial liabilities:						
Trade receivables	₩ 13,729,814	(13,729,814)	(13,729,814)	-	-	-
Short-term borrowings	24,333,622	(25,310,595)	(25,310,595)	-	-	-
Current Portion of Long-term borrowings	13,333,280	(13,644,396)	(6,842,252)	(6,802,144)	-	-
Long-term borrowings	22,666,600	(23,194,298)	(44,872)	(45,123)	(13,569,701)	(9,534,602)
Lease liabilities	576,069	(588,891)	(300,025)	(109,058)	(122,972)	(56,836)
Other payables	18,461,452	(18,461,452)	(18,461,452)	-	-	-
Other non-current payables	1,043,611	(1,043,611)	-	-	-	(1,043,611)
	₩ 94,144,448	(95,973,057)	(64,689,010)	(6,956,325)	(13,692,673)	(10,635,049)
Derivative financial liabilities:						
Derivative financial liabilities	634,658	(637,873)	(254,767)	(187,102)	(184,099)	(11,905)
	₩ 94,779,106	(96,610,930)	(64,943,777)	(7,143,427)	(13,876,772)	(10,646,954)

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33. Financial risk management, Continued

(3) Liquidity risk, continued

- (ii) The contractual maturities of financial liabilities held by the Company as of December 31, 2019 are as follows.

(In thousands of won)

		2019				
	Carrying amount	Contractual cash flow	Less than 6 months	6 to 12 months	1 to 2 years	2 to 5 years
Non-derivative financial liabilities:						
Trade receivables	₩ 11,499,932	(11,499,932)	(11,499,932)	-	-	-
Short-term borrowings	22,203,098	(22,404,238)	(22,404,238)	-	-	-
Current Portion of Long-term borrowings	19,624,990	(20,517,223)	(10,255,331)	(10,261,892)	-	-
Long-term borrowings	29,999,880	(30,781,328)	-	-	(13,854,004)	(16,927,324)
Lease liabilities	886,593	(908,983)	(298,126)	(278,358)	(308,254)	(24,245)
Other payables	19,699,446	(19,706,748)	(19,462,048)	(244,700)	-	-
Other non-current payables	1,156,770	(1,156,770)	-	-	-	(1,156,770)
	₩ 105,070,709	(106,975,222)	(63,919,675)	(10,784,950)	(14,162,258)	(18,108,339)
Derivative financial liabilities:						
Derivative financial liabilities	791,349	(803,543)	(190,070)	(179,466)	(286,345)	(147,662)
	₩ 105,862,058	(107,778,765)	(64,109,745)	(10,964,416)	(14,448,603)	(18,256,001)

(4) Market risk

Market risk refers to the risk that the fair value of financial instruments or future cash flows will fluctuate due to fluctuations in market prices such as exchange rates and interest rates. The purpose of market price management is to manage and control market risk exposure within acceptable limits while optimizing returns.

The Company buys and sells derivatives to manage market risk. In general, hedge accounting is applied to manage the volatility of revenue.

- (i) The carrying amounts of interest-bearing financial instruments held by the Company as of December 31, 2020 and 2019, are as follows:

(In thousands of won)

	2020	2019
Fixed rate instruments:		
Financial assets	₩ 75,847,267	28,540,844
Financial liabilities	(24,333,622)	(31,827,968)
	₩ 51,513,645	(3,287,124)
Variable rate instruments:		
Financial liabilities	₩ (35,999,880)	(40,000,000)
	₩ (35,999,880)	(40,000,000)

PI Advanced Materials Co., Ltd.
Notes to Financial Statements
For the years ended December 31, 2020 and 2019

33. Financial risk management, Continued

(4) Market risk, continued

(ii) Fair value sensitivity analysis for variable rate financial instruments

The Company is exposed to interest rate risk because it has variable rate financial liabilities. Assuming that other variables such as exchange rates do not change, if the interest rate changes by 100bp, the impact on the Company's profit or loss is as follows.

(In thousands of won)

		<u>100bp increase</u>	<u>100bp decrease</u>
Variable rate financial instruments			
Profit or loss	₩	(359,999)	359,999

(5) Currency risk

The Company is exposed to exchange risk for sales, purchases, and borrowing in currencies other than the Korean won, which is the Company's functional currency. The main currencies in which these transactions are displayed are USD, EUR, JPY, CNY, etc.

(i) Exposure to currency risk

The Company's exposure to foreign currency risk based on notional amounts as of December 31, 2020 and 2019 are as follows:

(In thousands of won, In CNY, EUR, GBP, JPY, USD)

2020					2019				
		KRW					KRW		
		Exchange	conversion				Exchange	conversion	
Foreign currency		rate	amount		Foreign currency		rate	amount	
Foreign currency assets:									
Cash and cash equivalents	USD	1,227,203.99	1,088.00	1,335,198	USD	2,097,377.95	1,157.80	2,428,344	
	CNY	1,013,553.97	166.96	169,223	-	-	-	-	-
Trade receivables	USD	21,756,438.72	1,088.00	23,671,005	USD	16,185,208.36	1,157.80	18,739,234	
	EUR	51,082.06	1,338.24	68,360	EUR	119,622.11	1,297.43	155,201	
	JPY	2,359,314.00	10.54	24,873	JPY	7,218,843.00	10.63	76,770	
	-	-	-	-	CNY	20,089,831.44	165.74	3,329,689	
Non-trade receivables	-	-	-	-	GBP	38,744.99	1,518.69	58,842	
	USD	19,581.00	1,088.00	21,304	USD	86,056.17	1,157.80	99,636	
	-	-	-	-	JPY	275,500.00	10.63	2,930	
	USD	23,003,223.71	1,088.00		USD	18,368,642.48	1,157.80		
Total	JPY	2,359,314.00	10.54		JPY	7,494,343.00	10.63		
	CNY	1,013,553.97	166.96	25,289,963	CNY	20,089,831.44	165.74	24,890,646	
	EUR	51,082.06	1,338.24		EUR	119,622.11	1,297.43		
	-	-	-		GBP	38,744.99	1,518.69		

PI Advanced Materials Co., Ltd.
Notes to Financial Statements
For the years ended December 31, 2020 and 2019

33. Financial risk management, Continued

(5) Currency risk, continued

(i) Exposure to currency risk, continued

(In thousands of won, In CNY, EUR, GBP, JPY, USD)

2020					2019				
		Exchange rate		KRW conversion amount			Exchange rate		KRW conversion amount
Foreign currency	Foreign currency				Foreign currency	Foreign currency			
Foreign currency liabilities:									
Trade payables	USD	5,618,508.71	1,088.00	6,112,937	USD	5,069,827.3	1,157.80	5,869,846	
	JPY	15,589,000.00	10.54	164,349	JPY	15,435,000.00	10.63	164,147	
	CNY	637,200.00	166.96	106,387	CNY	1,968,000.00	165.74	326,176	
Non-trade payables	USD	560,280.96	1,088.00	609,586	USD	871,549.73	1,157.80	1,009,080	
	JPY	33,625,242.00	10.54	354,497	JPY	8,863,117.00	10.63	94,257	
	-	-	-	-	EUR	1,062.83	1,297.43	1,379	
Short-term borrowings	USD	3,983,108.84	1,088.00	4,333,622	USD	1,902,831.49	1,157.80	2,203,098	
	JPY	49,214,242.00	10.54	11,681,378	JPY	24,298,117.00	10.63	9,667,983	
Total	CNY	637,200.00	166.96		CNY	1,968,000.00	165.74		
	-	-	-		EUR	1,062.83	1,297.43		

(ii) Sensitivity analysis

The Company regularly measures the foreign exchange risk of changes in the KRW exchange rate internally. As of December 31, 2020 and 2019, a 10% change in the won exchange rate against foreign currencies has the following effects on the profit or loss of the exchange rate change.

(In thousands of won)

2020				2019			
		10% increase	10% decrease			10% increase	10% decrease
USD	₩	1,397,136	(1,397,136)			1,218,519	(1,218,519)
JPY		(49,397)	49,397			(17,862)	17,862
CNY		6,284	(6,284)			300,351	(300,351)
EUR		6,836	(6,836)			15,382	(15,382)
GBP		-	-			5,884	(5,884)
	₩	1,360,859	(1,360,859)			1,522,274	(1,522,274)

The above sensitivity analysis is based on monetary assets and liabilities denominated in foreign currencies other than the functional currency as of the end of the reporting period.

PI Advanced Materials Co., Ltd.
Notes to Financial Statements
For the years ended December 31, 2020 and 2019

34. Related Parties

(1) As of December 31, 2020, related parties with the Company are as follows:

Division	Company name
The parent company	Korea PI Holdings Co., Ltd

(2) Transactions with related parties are as follows:

(i) Current year

(In thousands of won)

Related parties division	Company name	Sales	Purchase of others
Jointly controlled entity(*)	SKC Co., Ltd	₩ -	5,738
	Kolon industry Co., Ltd	6,296	679,301
	SK materials Co., Ltd	-	43,938
Others related parties(*)	Chungcheong energy service Co.,Ltd	-	637,382
	Other	-	158,392
		₩ 6,296	1,524,751

(*)Due to the change of parent company in March 2020, the special relationship between SKC Co., Ltd. and Kolon Industries Co., Ltd. and its consolidated entities has ceased to exist. Transactions with related parties with the relevant company and the group for the current period are the amounts before the termination of the related relationship.

(ii) Previous year

(In thousands of won)

Related parties division	Company name	Sales	Purchase of others
Jointly controlled entity	SKC Co., Ltd	₩ 34,860	73,489
	Kolon industry Co., Ltd	37,776	4,675,715
	SK materials Co., Ltd	-	277,317
	Chungcheong energy service Co.,Ltd	-	2,228,258
Others related parties	Kolon materials Co., Ltd	16,175	-
	Other	-	1,193,020
		₩ 88,811	8,447,799

PI Advanced Materials Co., Ltd.
Notes to Financial Statements
For the years ended December 31, 2020 and 2019

34. Related Parties, Continued

- (3) Details of receivables and liabilities to related parties as of December 31, 2019 are as follows.

(In thousands of won)

Related parties division	Related parties name	2019		
		Receivables, etc.		Payables, etc.
		Sales	Other	Non-trade payables
Jointly controlled entity	SKC Co., Ltd	₩ --	7,809,321	2,724
	Kolon industry Co., Ltd	-	7,809,321	447,929
	SK materials Co., Ltd	-	-	28,617
Others related parties	Chungcheong energy service Co., Ltd	-	-	-
	Kolon materials Co., Ltd	2,254	-	-
		₩ 2,254	15,618,642	479,270

(*) There are no receivables or liabilities to related parties as of December 31, 2020.

- (4) The Company determined that registered executives with important authority and responsibility for the planning, operation, and control of corporate activities were the main management. The amounts paid for compensation to key management for the years ended December 31, 2020 and 2019, are as follows:

(In thousands of won)

	2020	2019
Short-term employee benefits	₩ 521,907	754,855
Post-employment benefits	96,441	155,111
	₩ 618,348	909,966

- (5) Details of payment guarantees which the Company had provided for related companies as of December 31, 2020 and 2019 are as follows:

(In thousands of won)

	2020	2019
Employees stock loan payment guarantee	₩ 136,279	164,019

- (6) As of December 31, 2020 and 2019, there are no payment guarantees provided by related parties.

- (7) There were no financial transactions with related parties for the years ended December 31, 2020 and 2019.

- (8) The dividends paid by the Company to related parties for the years ended December 31, 2020 and 2019, are as follows.

(In thousands of won)

	2020	2019
SKC Co., Ltd	₩ 2,500,691	6,589,121
Kolon industry Co., Ltd	2,500,691	6,589,121
	₩ 5,001,382	13,178,242

PI Advanced Materials Co., Ltd.
Notes to Financial Statements
For the years ended December 31, 2020 and 2019

35. Statements of cash flows

- (1) Significant non-cash investment activities and non-cash financing activities not included in the statement of cash flows for the years ended December 31, 2020 and 2019, are as follows.

(In thousands of won)

		2020	2019
Reclassification of construction-in-progress	₩	12,572,806	78,828,997
Reclassification of current portion of long-term borrowings		13,333,280	19,624,990
Increase(decrease) in non-trade payables related to acquisition of Property, plant and equipment		249,481	(4,770,697)
Increase(decrease) in non-trade receivables related to disposal of Property, plant and equipment		18,724	-
Reclassification of current portion of long-term Loans		327,775	255,674
Adjustment of acquisition cost of right-of-use assets		327,131	1,365,379

- (2) Changes in liabilities arising from financing activities for the years ended December 31, 2020 and 2019, are as follows.

(In thousands of won)

		2020			2019		
		Borrowings	Lease liabilities	Accrued dividend	Borrowings	Lease liabilities	Accrued dividend
Beginning balance	₩	71,827,968	886,593	-	53,550,357	300,297	-
Changes in financial cash flows		(11,383,827)	(587,776)	-	18,308,914	(441,181)	-
Addition of lease liabilities		-	297,062	-	-	1,001,837	-
Lease interest expense		-	29,780	-	-	25,640	-
Removal of lease liabilities following termination		-	(49,590)	-	-	-	-
Exchange rate fluctuation effect		(110,638)	-	-	(31,303)	-	-
Payment of dividends		-	-	(9,250,391)	-	-	(24,374,047)
Resolution dividend		-	-	9,250,391	-	-	24,374,047
Ending balance	₩	<u>60,333,503</u>	<u>576,069</u>	<u>-</u>	<u>71,827,968</u>	<u>886,593</u>	<u>-</u>

36. Capital management

The Company's capital management policy is to maintain sound capital for the confidence of investors, creditors and markets, and for the future development of our business. The board of directors manages the return on capital ratio, which is the ratio of net operating income divided by total stockholders' equity. The Company's annual target return on capital is 8% to 12%.

The Company's capital management indicators for the year ended December 31, 2020 and 2019, are as follows:

(In thousands of won)

		2020	2019
Operating income	₩	60,009,434	33,602,431
Total stockholders' equity		282,886,689	251,285,863
Return on capital		21.21 %	13.37 %

Independent Auditors' Review Report on Internal Accounting Control System

Based on a report originally issued in Korean

To the President of
PI Advanced Materials Co., Ltd.

We have reviewed the accompanying Report on the Operational Status of Internal Accounting Control System ("IACS") of PI Advanced Materials Co., Ltd. (the "Company") as of December 31, 2020. The Company's management is responsible for designing and maintaining an effective IACS and for its assessment of the effectiveness of the IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of the IACS, the Company's management stated: "Based on the assessment on the operational status of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2020, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether the Report on the Operational Status of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of the Company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A Company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Korean International Financial Reporting Standards. Because of its inherent limitations, however, the IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that the Report on the Operational Status of Internal Accounting Control System as of December 31, 2020 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2020. We did not review the Company's IACS subsequent to December 31, 2020. This report has been prepared for Korean regulatory purposes, pursuant to the Act on External Audit of Stock Companies, Etc and may not be appropriate for other purposes or for other users.

A handwritten signature in black ink that reads "KPMG Samjong Accounting Corp." in a cursive style.

Seoul, Korea
March 8,

Report on the Operations of Internal Control over Financial Reporting

Based on a report originally issued in Korean

To the Shareholders, Board of Directors and Audit Committee of
PI Advanced Materials Co., Ltd.

We, as the Chief Executive Officer and the Internal Accounting Manager of PI Advanced Materials Co., Ltd ("the Company"), assessed operating status of the Company's Internal Control over Financial Reporting ("ICFR") for the year ended December 31, 2020.

Design and operation of ICFR is the responsibility of the Company's management, including the Chief Executive Officer and the Internal Accounting Manager.

We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information.

We conducted an evaluation of ICFR based on the 'Internal Accounting Control System ("IACS") Framework issued by the Internal Accounting Control System Operation Committee'.

Based on our assessment, we concluded that the Company's ICFR is designed and operated effectively as of December 31, 2020, in all material respects, in accordance with the 'IACS Framework issued by the Internal Accounting Control System Operation Committee'.

We certify that this report does not contain any untrue statement of a fact or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

Lee, Jin Hong
Internal Accounting Control Officer

Kim, Tae Rim
Chief Executive Officer

March 3, 2021