Deloitte.

HANKOOK TIRE WORLDWIDE CO., LTD.
(FORMERLY HANKOOK TIRE CO., LTD.)

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
AND INDEPENDENT AUDITORS' REPORT

Audit.Tax.Consulting.Financial Advisory

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

To the Shareholders and the Board of Directors of
Hankook Tire Worldwide Co., Ltd.:

We have audited the accompanying financial statements of Hankook Tire Worldiwde Co., Ltd. (formerly Hankook Tire Co., Ltd., the "Company" which was a consolidated entity including its subsidiaries in the comparative period) and consolidated financial statements of Hankook Tire Worldiwde Co., Ltd. and subsidiaries. The financial statements consist of the statement of financial position as of December 31, 2012, and the related statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows, all expressed in Korean won, for the year ended December 31, 2012. And the consolidated financial statements consist of the consolidated statement of financial position as of December 31, 2011, and the related consolidated statement of comprehensive income, consolidated statement of changes in stockholders' equity and consolidated statement of cash flows, all expressed in Korean won, for the year ended December 31, 2011.

The Company's management is responsible for the preparation and fair presentation of the financial statements and our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of other subsidiaries whose financial statements represent 50.4% of the Company's consolidated total assets as of December 31, 2011. Those subsidiaries represent 61.8% of the Company's consolidated total sales for the year ended December 31, 2011.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, respectively, the results of its operations and its cash flows for the years ended December 31, 2012 and 2011, respectively, in conformity with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 2 that the financial statements for the current period are financial statements with the investments in associates accounted for using the equity method (i.e. the consolidated financial statements with no subsidiaries to consolidate). This is because all of the Company's subsidiaries are transferred to the newly incorporated company after the spin-off as of September 1, 2012. The accompanying comparative financial statements of the comparative period are a consolidated financial statements and some of the accounts are reclassified to be matched with the account of the current period for better comparability.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

Deloitte Anjin LLC

March 14, 2013

Notice to Readers

This report is effective as of March 14, 2013, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying financial statements and may result in modifications to the auditors’ report.

HANKOOK TIRE WORLDIWDE CO., LTD.
(FORMERLY HANKOOK TIRE CO., LTD., “ the Company”)

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

The accompanying financial statements, including all footnote disclosures, were prepared by and are the responsibility of Hankook Tire Worldwide Co., Ltd.

Cho, Yang Rai/ Cho, Hyun Shick
Hankook Tire Worldwide Co., Ltd. Chief Executive Officer

HANKOOK TIRE WORLDWIDE CO., LTD.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

	Notes	2012		2011	
		(Korean won in thousands)			
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	32,33	₩	85,418,967	₩	635,195,528
Short-term financial assets	3,33		215,498,911		297,355,246
Financial assets at FVTPL	5,33		6,983,394		5,512,110
Trade and other accounts receivable	4,31,33		60,653,457		1,416,373,590
Inventories	7		-		1,329,259,381
Other financial assets	6,33		153,094,873		12,101,020
Other current assets	8		375,702		80,835,444
TOTAL CURRENT ASSETS			522,025,304		3,776,632,319
NON-CURRENT ASSETS:					
Long-term financial assets	3,33		-		132,030
AFS financial assets	5,33		289,960,804		14,176,021
Investments in associates	10		97,411,007		82,317,883
Property, plant and equipment	11,34		31,466,296		3,333,178,978
Investment property	12,34		27,745,708		70,632,237
Intangible assets	13		5,052,091		93,773,045
Other financial assets	6,33		-		10,308,657
Other non-current assets	8,34		650,019		5,019,513
Deferred tax assets	29		-		50,208,931
TOTAL NON-CURRENT ASSETS			452,285,925		3,659,747,295
TOTAL ASSETS		₩	974,311,229	₩	7,436,379,614

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2012 AND 2011

	Notes	2012	2011
		(Korean won in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade and other accounts payable	14,31,33	₩ 12,519,124	₩ 893,935,661
Short-term borrowings and current portions of long-term financial liabilities	15,33	-	2,344,755,387
Current tax liabilities		71,000,157	67,570,568
Other financial liabilities	16,33	-	5,785,547
Other current liabilities	19	900,889	358,297,717
TOTAL CURRENT LIABILITIES		84,420,170	3,670,344,880
NON-CURRENT LIABILITIES:			
Long-term borrowings and debentures	15,33	-	452,726,161
Defined benefit liabilities	17	2,112,775	10,793,410
Other provisions	18	122,747	74,953,461
Other financial liabilities	16,33	8,670,872	10,863,564
Deferred tax liabilities	29	53,732,197	-
TOTAL NON-CURRENT LIABILITIES		64,638,589	549,336,596
TOTAL LIABILITIES		149,058,759	4,219,681,476
SHAREHOLDERS' EQUITY:			
Capital stock	20	14,157,430	76,094,965
Other paid-in capital	21	(5,243,661,626)	112,259,484
Retained earnings	22	6,049,084,193	2,833,834,645
Other equity	23	5,672,473	183,700,143
Non-controlling interest		-	10,808,901
TOTAL SHAREHOLDERS' EQUITY		825,252,470	3,216,698,138
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		₩ 974,311,229	₩ 7,436,379,614

(Concluded)

See accompanying notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Notes	2012	2011
		(Korean won in thousands, except for income per share data)	
CONTINUING OPERATION			
OPERATING REVENUE	24,31	₩ 39,331,049	₩ 18,254,580
OPERATING EXPENSES	25,31	(25,701,899)	(22,785,730)
OPERATING INCOME		13,629,150	(4,531,150)
Financial income	26	21,358,400	29,530,905
Financial expense	27	(28,565,446)	(21,353,607)
Other non-operating income	28	1,405,999	2,035,336
Other non-operating expense	28	(91,748)	(60,288)
INCOME BEFORE INCOME TAX EXPENSE		7,736,356	5,621,196
INCOME TAX EXPENSE	29	(2,385,621)	(7,887,888)
NET INCOME FROM CONTINUING OPERATIONS		₩ 5,350,735	₩ (2,266,692)
DISCONTINUED OPERATION			
NET INCOME FROM DISCONTINUED OPERATIONS	35	₩ 3,271,807,734	₩ 357,487,632
NET INCOME		₩ 3,277,158,469	₩ 355,220,940
OTHER COMPREHENSIVE INCOME (LOSS)			
Gains on valuation of AFS financial assets	23	₩ 7,859,813	₩ 793,288
Cash flow hedging reserve	23	-	36,660
Equity changes accounted for using the equity method	23	1,105,326	(200,504)
Exchange differences on translating foreign operations	23	(183,928,455)	22,490,969
Actuarial losses on defined benefit plans	22	(4,700,590)	(38,288,419)
Retained earnings changes due to investments in associates accounted for using the equity method	22	(865,148)	1,725,485
Tax effects on other comprehensive income		(1,877,344)	10,664,581
		182,406,398	(2,777,940)
COMPREHENSIVE INCOME		₩ 3,094,752,071	₩ 352,443,000

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Notes	2012	2011
		(Korean won in thousands, except for income per share data)	
NET INCOME ATTRIBUTABLE TO:			
Owners of the Company			
Net income from continuing operations		₩ 5,350,735	₩ (2,266,692)
Net income from discontinued operations		3,272,292,562	357,984,049
		3,277,643,297	355,717,357
Non-controlling interests			
Net income from continuing operations		-	-
Net income from discontinued operations		(484,828)	(496,416)
		(483,828)	(496,416)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		3,095,297,849	352,856,647
Non-controlling interests		(545,778)	(413,647)
		3,094,752,071	352,443,000
NET INCOME PER SHARE (Korean won)	30		
Basic and diluted income per share of continuing operation		₩ 50	₩ (16)
Basic and diluted income per share of discontinued operation		₩ 30,837	₩ 2,466

(Concluded)

See accompanying notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Korean won in thousands)

		Other paid-in capital							
	Capital stock	Additional paid-in capital	Other paid-in capital	Treasury stocks	Retained earnings	Other	Owners of the Company	Non-controlling interests	Total
As of January 1, 2011	₩ 76,094,965	₩ 115,653,338	₩ 53,931,276	₩(57,318,202)	₩ 2,556,075,831	₩ 159,418,785	₩2,903,855,993	₩ (49,066)	₩ 2,903,806,927
Cash dividends	-	-	-	-	(50,816,475)	-	(50,816,475)	-	(50,816,475)
Changes in consolidated scope	-	-	(6,929)	-	-	-	(6,929)	11,271,614	11,264,685
Comprehensive income									
Net income	-	-	-	-	355,717,357	-	355,717,357	(496,417)	355,220,940
Gains on valuation of AFS financial assets, net	-	-	-	-	-	614,603	614,603	160	614,763
Cash flow hedging reserve, net	-	-	-	-	-	27,788	27,788	-	27,788
Equity changes accounted for using the equity method	-	-	-	-	-	(175,684)	(175,684)	-	(175,684)
Exchange differences on translating foreign operations	-	-	-	-	-	23,814,651	23,814,651	82,928	23,897,579
Actuarial losses on defined benefit plans	-	-	-	-	(28,664,586)	-	(28,664,586)	(318)	(28,664,904)
Retained earnings changes due to investments in associates accounted for using the equity method	-	-	-	-	1,522,518	-	1,522,518	-	1,522,518
As of December 31, 2011	₩ 76,094,965	₩ 115,653,338	₩ 53,924,347	₩(57,318,202)	₩ 2,833,834,645	₩ 183,700,143	₩3,205,889,236	₩ 10,808,901	₩ 3,216,698,137

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

(Korean won in thousands)

		Other paid-in capital								
	Capital stock	Additional paid-in capital	Other paid-in capital	Treasury stocks	Losses on capital reduction	Retained earnings	Other equity	Owners of the Company	Non-controlling interests	Total
As of January 1, 2012	₩ 76,094,965	₩115,653,338	₩ 53,924,347	₩ (57,318,202)	₩ -	₩2,833,834,645	₩ 183,700,143	₩ 3,205,889,236	₩ 10,808,901	₩3,216,698,137
Cash dividends	-	-	-	-	-	(58,075,971)	-	(58,075,971)	-	(58,075,971)
Comprehensive income										
Net income	-	-	-	-	-	3,277,643,297	-	3,277,643,297	(484,828)	3,277,158,469
Gains on valuation of AFS financial assets, net	-	-	-	-	-	-	5,868,310	5,868,310	-	5,868,310
Cash flow hedging reserve, net	-	-	-	-	-	-	(198,578)	(198,578)	-	(198,578)
Equity changes accounted for using the equity method	-	-	-	-	-	-	971,582	971,582	-	971,582
Exchange differences on translating foreign operations	-	-	-	-	-	-	(14,303,374)	(14,303,374)	(60,950)	(14,364,324)
Actuarial losses on defined benefit plans	-	-	-	-	-	(4,060,142)	-	(4,060,142)	-	(4,060,142)
Retained earnings changes due to investments in associates accounted for using the equity method	-	-	-	-	-	(769,159)	-	(769,159)	-	(769,159)
Capital changes due to spin-off	(61,937,535)	207,766,871	(3,461,774)	46,654,183	(5,606,451,799)	511,523	(170,365,610)	(5,587,284,141)	(10,263,123)	(5,597,547,264)
Acquisition of treasury stock	-	-	-	(428,590)	-	-	-	(428,590)	-	(428,590)
As of December 31, 2012	₩ 14,157,430	₩323,420,209	₩ 50,462,574	₩ (11,092,609)	₩ (5,606,451,799)	₩6,049,084,193	₩ 5,672,473	₩ 825,252,470	₩ -	₩ 825,252,470

(Concluded)

See accompanying notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
	(Korean won in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 3,277,158,469	₩ 355,220,940
Adjustment		
Gain on disposal of discontinued operations	(2,739,647,744)	-
Income tax expense	83,757,200	124,370,965
Interest income	(16,250,490)	(22,546,409)
Interest expense	55,995,720	71,804,532
Gain on foreign currency translation	(106,415,045)	(117,629,461)
Loss on foreign currency translation	76,492,516	170,861,375
Gain on disposal of investments in associates	-	(812,056)
Gain on investments in associates	(16,847,026)	(15,670,480)
Loss on disposal of AFS securities	2,301	15,961
Gain on disposal of AFS securities	(6,515)	(2,576,554)
Gain on foreign exchange forward transaction	(915,348)	-
Gain on valuation of foreign exchange forward contracts	(2,381,793)	-
Loss on valuation of foreign exchange forward contracts	-	5,785,547
Loss on disposal of inventories	882,780	1,826,191
Loss on valuation of inventories	899,753	5,980
Reversal of loss on valuation of inventories	(1,365,194)	3,061,802
Loss on disposal of trade receivable	1,846,642	-
Provision for doubtful accounts	2,935,499	2,865,631
Gain on disposal of property, plant and equipment	(634,356)	(3,730,010)
Loss on disposal of property, plant and equipment	10,353,280	8,111,241
Loss on disposal of intangible assets	76,416	60,287
Depreciation of property, plant and equipment	243,277,463	357,019,611
Depreciation of investment in properties	790,792	768,473
Amortization of intangible assets	3,980,278	3,694,115
Gain on disposal of investment in properties	-	(29,100)
Gain on disposal and evaluation of held-for-trading securities, net	(1,400,667)	-
Loss on disposal and evaluation of held-for-trading securities, net	-	4,884,364
Dividend incomes	(397,692)	(205,024)
Transfer to other provisions	224,874	-
Impairment loss on AFS securities	10,000,000	-
Sales damage expense	9,538,151	36,616,927
Employee benefits	1,592,901	3,596,519
Provision for severance benefits	25,303,610	30,615,099
	(2,358,311,694)	662,765,527
Changes in operating assets and liabilities:		
Decrease (increase) of short-term financial assets	(169,110,981)	113,165,554
Increase in trade receivables	(290,114,311)	(712,967,242)
Decrease (increase) in other accounts receivable	30,390,944	(11,037,969)
Increase in accrued income	(56,328,707)	(30,812,861)
Decrease (increase) in advance payments	15,077,165	(27,750,958)
Increase in prepaid expenses	(16,999,612)	(16,049,626)

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
	(Korean won in thousands)	
Increase in prepaid value added tax	-	(111,238,365)
Decrease in deposits of acceptances and guarantees	753,778	5,892,586
Increase in inventories	(1,409,505)	(396,740,838)
Increase in leasehold deposits provided	(1,251,022)	(582,991)
Increase in other current assets	(4,664,058)	(801,518)
Decrease (increase) in other non-current assets	3,548,471	(3,584,779)
Increase (decrease) in trade payables	(25,817,750)	475,223,175
Increase (decrease) in accounts payable	(53,178,000)	38,712,370
Increase in accrued expenses	159,941,520	7,256,869
Increase (decrease) in advances from customers	(44,397,324)	19,746,852
Increase in deposits	19,914,363	93,425,318
Decrease in value added tax withheld	(38,137,540)	-
Increase (decrease) in unearned revenue	(1,856,012)	12,397,969
Increase in other current liabilities	2,450,857	3,298,250
Payment of severance indemnities	(7,609,201)	(93,278,472)
Decrease in plan assets	(4,137,450)	(2,088,237)
Increase (decrease) in rental deposits	1,587,848	(702,392)
Decrease in foreign exchange forward liabilities	(225,404)	-
Compensation for sales damages	(17,619,370)	(26,792,511)
Payment of long-term debts for employees	(1,024,745)	(774,627)
	(500,216,046)	(666,084,443)
	418,630,729	351,902,024
Interest revenue received	54,555,197	23,363,181
Dividend received	2,389,763	1,629,366
Interest expense paid	(57,445,128)	(80,137,056)
Income tax paid	(98,742,382)	(133,595,422)
Net cash provided by operating activities:	₩ 319,388,179	₩ 163,162,093
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of AFS securities	(21,973,593)	(141,615)
Disposal of AFS securities	154,828	4,538,256
Disposal of investments in associates, net	-	4,672,004
Acquisition of investments in subsidiaries, net	-	(58,777,267)
Disposal of financial asset at FVTPL, net	585,604	(3,535,360)
Acquisition of property, plant and equipment	(621,003,184)	(623,552,861)
Disposal of property, plant and equipment	22,276,331	21,495,597
Acquisition of investment property	-	(2,387,580)
Disposal of investment in properties	-	470,000
Acquisition of intangible assets	(744,611)	(24,795,843)
Disposal of intangible assets	554,492	-
Acquisition of other financial assets	(263,053)	(75,586,875)
Disposal of other financial assets	6,088,831	12,543,919
Settlement of derivatives	(4,648,100)	-
Net cash used in investing activities:	₩ (618,972,455)	₩ (745,057,625)

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD..

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
	(Korean won in thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	266,554,352	1,517,530,727
Proceeds from long-term borrowings	511,789,219	591,180,083
Issuance of debentures	149,335,400	-
Increase in paid-in capital	-	11,264,685
Repayment of short-term borrowings	(221,234,215)	(1,131,086,469)
Repayment of current portions of long-term financial liabilities	(316,115,501)	(230,778,138)
Acquisition of treasury stock	(428,591)	-
Payment of dividends	(58,075,972)	(50,807,873)
Decrease due to spin-off	(569,258,142)	-
Net cash provided by (used in) financing activities:	₩ (237,433,450)	₩ 707,303,015
NET INCREASE (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(537,017,726)	125,407,483
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	635,195,528	505,387,359
CHANGES IN CASH AND CASH EQUIVALENTS DUE TO FOREIGN CURRENCY TRANSLATION	(12,758,835)	4,400,686
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	₩ 85,418,967	₩ 635,195,528

(Concluded)

See accompanying notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. THE COMPANY:

Hankook Tire Worldwide Co., Ltd. (formerly Hankook Tire Co., Ltd., the "Company" which was a consolidated entity including its subsidiaries in the comparative period) was incorporated in May 1941 to manufacture and sell tires, tubes and alloy wheels. In 1968, the Company offered its shares for public ownership and all of the Company's shares were registered with the Korea Exchange. On April 25, 2012, the board of directors resolved to spin-off the tire business unit and the investment business unit separately; the former (the new company, Hankook Tire Co., Ltd.) engages in manufacturing, processing and distribution of tires, tubes and parts; the latter (the surviving company, Hankook Tire Worldwide Co., Ltd.) engages in the subsidiary management and real estate rental business. Following the approval of the shareholders' meeting on July 27, 2012, the spin-off has been implemented on September 1, 2012 and the Company changed its corporate name from Hankook Tire Co., Ltd. to Hankook Tire Worldwide Co., Ltd.

Through the multiple capital increases, transfers of convertible bonds and the spin-off, the authorized number of the Company's common shares amounts to 250 million with a par value of ₩500 per share as of December, 31 2012. The capital stock of the Company is ₩14,157,430 thousands (common shares: 28,314,860 thousands) and the Company's shareholders as of December 31, 2012 and 2011, are as follows:

	December 31, 2012		December 31, 2011	
	Number of shares owned	Percentage of ownership (%)	Number of shares owned	Percentage of ownership (%)
Yang Rai Cho	4,527,608	15.99	24,335,507	15.99
Hyun Bum Cho	2,009,009	7.10	10,798,251	7.10
Hyun Shick Cho	1,640,544	5.79	8,817,786	5.79
Others (*)	20,137,699	71.12	108,238,385	71.12
	28,314,860	100.00	152,189,929	100.00

(*) Including 1,325,086 shares as of December 31, 2012 and 7,000,000 shares as of December 31, 2011 in treasury stock

The financial statements of the reporting period for the annual meeting of shareholders have been approved to be issued by the board of directors on February 26, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of preparing separate financial statements

The Company has prepared the financial statements in accordance with the K-IFRS from the annual period beginning on January 1, 2011. As all the subsidiaries consolidated in the comparative period have been transferred to the new company with the spin-off, the Company has no subsidiaries to consolidate on December 31, 2012 so that its financial statements for the current period is financial statements with the investment in associates accounted for using the equity method (i.e. a consolidated financial statements with no subsidiaries to consolidate). The accompanying comparative financial statements of the comparative period is a consolidated financial statements and some of the accounts are reclassified to be matched with the accounts of the current period for better comparability.

Major accounting policies used for the preparation of the financial statements are stated below. Unless stated otherwise, these accounting policies have been applied consistently to the financial statements for the current period and the accompanying comparative period.

The accompanying financial statements have been prepared on the historical cost basis except for certain accounts and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

1) Newly adopted basic principles and the changes in accounting policy are as follows.

K- IFRS 1107 *Financial Instruments: Disclosures – Transfers of Financial Assets*

The Company may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. The amendments to K-IFRS 1107 increase the disclosure requirements for transactions involving transfers of financial assets in order to provide greater transparency around the nature of the transferred assets, the nature of the risks and rewards of ownership to which the Company is exposed, description of the nature of the relationship between the transferred assets and the associated liabilities and carrying value of the associated liabilities. When the Company continues its involvement on the transferred assets although the transferred assets are derecognized in their entirety, the Company discloses the carrying amounts of the transferred assets and the associated liabilities and information showing how the maximum exposure to loss.

K- IFRS 1001 Presentation of *Financial Statement*

The Company in accordance with the revision of the standards changed the calculation method of operating income and the operating income is calculated by subtracting the cost of sales and selling and administrative expenses to sales. Operating income classification changing due to the change in accounting policy was applied retroactively and
Comparative income statement is rewritten to reflect changes according to retroactive application.

As a consequence of the policy change, some of the operating incomes and expenses are reclassified to other incomes and expense as follows: ₩1,401,000 thousand (other income), ₩15,332 thousand (other expense) and ₩71,417 thousand (other gains and losses) in FY2012; ₩1,223,280 thousand (other income) and ₩751,768 thousand (other gains and losses) in FY2011. Therefore, the operating income decreases by ₩1,314,251 thousand in FY2012 and ₩1,975,048 thousand in FY2011due to the change. However the net income and net income per share are not influenced by the change for both periods.

K-IFRS 1012 *Deferred Tax – Recovery of Underlying Assets*

The amendments to K-IFRS 1012 provide an exception to the general principles in K-IFRS 1012 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the Company expects to recover the carrying amount of an asset. Investment property or a non-depreciable asset measured using the revaluation model in K-IFRS 1016 *Property, Plant and Equipment* is presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The Company does not anticipate that these amendments referred above will have a significant effect on the Company's financial statements

K-IFRS 2114 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction*

The amendments to K-IFRS 2114 require to recognize the surplus of the paid contribution minus the defined benefit obligation. The Company does not anticipate that these amendments referred above will have a significant effect on the Company's financial statements

2) Enactments and amendments of the K-IFRS

The Company has not applied the following new and revised K-IFRSs that have been issued but are not yet effective:

K-IFRS 1001 *Presentation of Financial Statements*

The amendments to K-IFRS 1001 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments are effective annual periods beginning on or after July 1, 2012. The Company does not anticipate that these amendments referred above will have a significant effect on the Company's financial statements and disclosures.

Amendments to K-IFRS 1032 *Financial Instruments: Presentation*

The amendments to K-IFRS 1032 clarify existing application issue relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Company's right to offset must not be conditional on the occurrence of future events but enforceable anytime during the contract periods, during the ordinary course of business with counterparty, a default of counterparty and master netting agreement or in some forms of non-recourse debt. The amendments to K-IFRS 1032 are effective for annual periods beginning on January 1, 2014. The Company is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

Amendments to K-IFRS 1107 *Financial Instruments: Disclosures*

The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities. The amendments to K-IFRS 1107 are effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

Amendments to K-IFRS 1110 Consolidated Financial Statements

The amendments to K-IFRS 1110 include a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

Amendments to K-IFRS 1112 *Disclosure of Interest in Other Entities*

K-IFRS 1112 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associate, or unconsolidated structured entities. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is reviewing the impact of the application of this standard on the Company's financial statements.

K-IFRS 1113 *Fair Value Measurement*

K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. K-IFRS 1113 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is reviewing the impact of the application of this standard on the Company's financial statements.

(2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (or its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used the Company.

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(3) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

The identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 Share-based Payment at the acquisition date;
- and assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree and c) the fair value of the acquirer's previously held interest in the acquiree (if any); the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement, or K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(4) Investments in associates (Equity-accounted investees)

Associates are the entities that the Company is able to exercise significant influence over investees, but is not the Company's subsidiaries or joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not controlled or joint controlled of those policies. If an entity holds, directly or indirectly (e.g., through subsidiaries), 20% or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale; in which case, it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate), the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of K-IFRS 1039 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value, less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

When the Company transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's financial statements only to the extent of interests in the associate that are not related to the Company.

(5) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal groups) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(6) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services provided in the Company's normal course of business, net of discounts, customer returns, rebates and related taxes.

1) Sale of goods

The Company recognizes revenue from the sale of goods when the significant risks and rewards of ownership of the goods are transferred to the buyer.

2) Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

3) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement.

4) Dividend and interest income

Dividend income from investments is recognized when the shareholders right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

5) Rental income

The Company's policy for recognition of revenue from operating leases is described in Note 2 (7) below:

(7) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Company as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Company as lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(8) Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of the Company entity are expressed in Korean won (KRW), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are expressed in KRW using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period; in which case, the exchange rates at the dates of the transactions are used.

Exchange differences, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Company are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences is reattributed to non-controlling interests in equity and is not recognized in profit or loss. For all other partial disposals (i.e., of associates or jointly controlled entities not involving a change of accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(9) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(10) Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire assets are recognized as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as revenue over the periods that correspond to the costs that the Company intends to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

(11) Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. The present value of the retirement benefit is calculated using the interest rate of fine securities whose maturity is similar to the payment date.

However, if there is no proper market for those securities, the Company uses market interest rate of government securities. The profit or loss incurred from changes in the assumptions and the difference between actual and assumption are recognized in other comprehensive income in the statements of comprehensive income.

The Company allocates recognized actuarial gains and losses as retained earnings, not reclassified to gains and losses. Past service cost is recognized immediately to the extent that the benefits are already vested and, otherwise, is amortized on the straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(12) Income tax

Income tax consists of current tax and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Also, the Company does not recognize deferred tax on the initial transactions that do not affect the taxable income and accounting income.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

3) Current and deferred tax for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(13) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Company does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Assets	Useful lives (Years)
Buildings	20–40
Structures	20–40
Vehicles	4
Tools, furniture and fixtures	4

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Company reviews the depreciation method, the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

In addition, when an acquisition of a tangible asset occurs free of charge or at a value less than fair market value due to government subsidy, the acquisition cost, less government subsidy, is recorded as the acquisition cost upon initial acquisition and depreciation expense is calculated based on the carrying amount.

(14) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

While land is not depreciated, all other investment property is depreciated based on the respective assets estimated useful lives ranging from 40 years using the straight-line method.

(15) Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Assets	Estimated useful lives
	(Years)
Industrial property rights	5
Other intangible assets	10

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

• improvement of technical feasibility and development of new product and
• the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

(16) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

(17) Inventories

Inventories are stated at the lower of cost or net realized value, with cost being determined using the following methods:

	Costing method
Finished goods and work in process	Weighted-average method
Raw materials, merchandise and supplies	Moving-average method
Materials in transit	Specific identification method

Cost of inventories consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The carrying amount of inventories sold in the period and the amount of any write-down of inventories to net realizable value and all losses of inventories in the period, less the amount of any reversal in the period of any write-down of the inventories, arising from an increase in net realizable value, is recognized as expense during the period.

(18) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

(19) Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ("FVTPL"), which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity ("HTM") investments, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

• it has been acquired principally for the purpose of selling it in the near term; or
• on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or
• it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

• such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
• the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
• it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line item in the statements of comprehensive income.

3) HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as HTM investments. HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

4) Financial assets AFS

Non-derivatives financial assets that are not classified as at HTM, held for trading, designated as at FVTPL, or loans and receivables are classified as at financial assets AFS. Financial assets can be designated as AFS on initial recognition. Financial assets AFS are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on AFS equity instruments are recognized in profit or loss when the Company’s right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Unquoted AFS financial assets whose fair value cannot be measured reliably and derivative assets linked with unquoted equity financial assets that pay for the equity financial assets are carried at acquisition cost, less impairment. Also, in respect of AFS debt securities, if, in a subsequent period, the amount of the fair value increases and the increase can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss.

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables.’ Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

• significant financial difficulty of the issuer or counterparty; or
• default or delinquency in interest or principal payments; or
• it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
• the market of financial assets extinct due to financial difficulty,

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of the Company, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

7) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognize a collateralized borrowing for the proceeds received.

If the Company derecognizes financial assets entirely, the difference among proceeds received, carrying value of the assets accumulated gain or loss in other comprehensive income is recognized as profit or loss.

If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset and retains control of the transferred asset, the entity continues to recognize the transferred asset to the extent of its continuing involvement. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. The Company allocates the previous carrying amount to fair value of the assets and recognizes as profit or loss the difference among proceeds received, allocated carrying value and allocated accumulated profit or loss.

(20) Financial liabilities and equity instruments issued by the Company

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

3) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

4) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

5) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses’ line item in the statements of income.

6) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

7) Financial guarantee contract liabilities

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 and
- the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018 *Revenue*

8) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company’s obligations are discharged, canceled or they expire.

(21) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts etc. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately, unless the derivative is designated and effective as a hedging instrument; in such case, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset and a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

2) Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statements of income relating to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship; the hedging instrument expires or is sold, terminated or exercised; or it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and, is included in the ‘other gains and losses’ line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss in the same line of the statements of income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship; the hedging instrument expires or is sold, terminated or exercised; or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

5) Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and included in the 'other gains and losses'.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation.

(22) Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3. RESTRICTED FINANCIAL ASSETS:

Details of restricted financial assets as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

Account	2012	2011
Short-term financial Assets	₩ -	₩ 110,788
Long-term financial Assets	-	15,500
Total	₩ -	₩ 126,288

4. TRADE AND OTHER RECEIVABLES:

(1) Details of trade and other receivables as of December 31, 2012, and 2011, are as follows (Korean won in thousands):

	2012		
	Gross amount	Less: Allowance for debt	Net amount
Trade receivables	₩ 56,101,919	₩ (10)	₩ 56,101,909
Other accounts receivable	789,401	(387)	789,014
Accrued income	3,762,534	-	3,762,534
Total	₩ 60,653,854	₩ (397)	₩ 60,653,457

	2011		
	Gross amount	Less: Allowance for debt	Net amount
Trade receivables	₩ 1,092,430,941	₩ (16,443,309)	₩ 1,075,987,632
Other accounts receivable	334,086,651	(662,445)	333,424,206
Accrued income	6,527,676	-	6,527,676
Subtotal	1,433,045,268	(17,105,754)	1,415,939,514
Defaulted note receivables	599,233	(165,157)	434,076
Subtotal	599,233	(165,157)	434,076
Total	₩ 1,433,644,501	₩ (17,270,911)	₩ 1,416,373,590

(2) Changes in allowance for trade and other receivables for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012			
	Trade receivables	Other accounts receivable	Defaulted note receivables	Total
Beginning balance	₩ 16,443,309	₩ 662,445	₩ 165,157	₩ 17,270,911
Bad debt expense	2,824,655	137,844	(27,000)	2,935,499
Write-offs	(554,226)	-	(73,748)	(627,974)
Recovery	14,127	-	-	14,127
Foreign currency translation	(162,835)	-	-	(162,835)
Decrease by spin-off	(18,565,020)	(799,902)	(64,409)	(19,429,331)
Ending balance	₩ 10	₩ 387	₩ -	₩ 397

	2011			
	Trade receivables	Other accounts receivable	Defaulted note receivables	Total
Beginning balance	₩ 14,769,265	₩ 730,770	₩ 178,500	₩ 15,678,535
Bad debt expense	3,577,359	51,581	67,863	3,696,803
Write-offs	(539,261)	-	(62,572)	(601,833)
Recovery	49,593	-	-	49,593
Reversal of allowance for bad debts	(692,632)	(119,906)	(18,634)	(831,172)
Foreign currency translation	(721,015)	-	-	(721,015)
Ending balance	₩ 16,443,309	₩ 662,445	₩ 165,157	₩ 17,270,911

The Company considers a change of credit grade about trade receivables from starting date for granting credit to the statements of financial position date to judge recoverability of trade receivables and others.

As of December 31, 2012, ₩56,377,178 thousand of trade receivables and other accounts receivable for Hankook Tire Co., Ltd. which account for more than 10% of total balance by customers is included in ₩60,653,854 thousands of total trade receivables and other accounts receivable.

5. FINANCIAL ASSETS AT FVTPL AND AFS SECURITIES:

Details of financial assets at FVTPL and AFS securities as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Financial asset at FVTPL	₩ 6,983,394	₩ 5,512,110
AFS securities		
Equity instruments	269,023,770	2,176,021
Debt instruments	20,937,034	12,000,000
Subtotal	289,960,804	14,176,021
Total	₩ 296,944,198	₩ 19,688,131

6. OTHER FINANCIAL ASSETS:

Details of other financial assets as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		2011	
	Current	Non-current	Current	Non-current
Foreign exchange forward contracts	₩ 2,381,793	₩ -	₩ -	₩ -
Loans	150,713,080	-	9,931,601	3,851,831
Deposits provided	-	-	2,169,419	6,456,826
Total	₩ 153,094,873	₩ -	₩ 12,101,020	₩ 10,308,657

7. INVENTORIES:

The Company has no inventories as of December 31, 2012, as all the inventories have been transferred to newly established company by spin-off which was implemented during the reporting period. Details of inventories as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		
	Acquisition cost	Inventory valuation	Inventory valuation reserve
Finished goods	₩ -	₩ -	₩ -
Work in process	-	-	-
Raw materials	-	-	-
Supplies	-	-	-
Materials in transit	-	-	-
Total	₩ -	₩ -	₩ -

	2011		
	Acquisition cost	Inventory valuation	Inventory valuation reserve
Finished goods	₩ 470,409,738	₩ 466,975,444	₩ 3,434,294
Work in process	41,387,327	41,387,327	-
Raw materials	216,252,802	214,717,029	1,535,773
Supplies	23,244,183	22,864,998	379,185
Materials in transit	583,314,583	583,314,583	-
Total	₩ 1,334,608,633	₩ 1,329,259,381	₩ 5,349,252

	Foreign currency translation variance		Losses (gains) on valuation of inventories	
	2012	2011	2012	2011
Finished goods	₩ -	₩ (379,344)	₩ -	₩ 1,022,253
Work in process	-	-	-	-
Raw materials	-	-	-	(1,016,273)
Supplies	-	-	-	-
Materials in transit	-	-	-	-
Total	₩ -	₩ (379,344)	₩ -	₩ 5,980

8. OTHER ASSETS:

Details of other assets as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		2011	
	Current	Non-current	Current	Non-current
Advance payments	₩ 359,197	₩ -	₩ 38,844,503	₩ -
Prepaid expenses	16,505	-	41,642,637	-
Others	-	650,019	348,304	5,019,513
Total	₩ 375,702	₩ 650,019	₩ 80,835,444	₩ 5,019,513

9. SUBSIDIARIES:

As a consequence of the spin-off conducted during the current period, all the subsidiaries consolidated in the comparative period have been transferred to Hankook Tire Co., Ltd (the new company). Thus, the Company has no subsidiary to consolidate at the end of the current period. Those details of subsidiaries transferred to the new company are as follows:

Subsidiaries	Primary business	Location	Percentage of ownership (%)	Reporting month
Daehwa Engineering & Machinery Co., Ltd.	Manufacture of tire and tube manufacturing machine	Korea	95.00	Dec.
Hankook Tire America Corp.	Sales of tire	U.S.A.	100.00	Dec.
Hankook Tyre U.K. Ltd.	Sales of tire	U.K.	100.00	Dec.
Jiangsu Hankook Tire Co., Ltd.	Manufacture and sales of tire	China	100.00	Dec.
Hankook Tire China Co., Ltd.	Manufacture and sales of tire	China	100.00	Dec.
Shanghai Hankook Tire Sales Co., Ltd.	Sales of tire	China	100.00	Dec.
Hankook Tire Netherlands B.V.	Sales of tire	Netherlands	100.00	Dec.
Hankook Tire Japan Corp.	Sales of tire	Japan	100.00	Dec.
Hankook Tire Canada Corp.	Sales of tire	Canada	100.00	Dec.
Hankook Reifen Deutschland GmbH	Sales of tire	Germany	100.00	Dec.
Hankook Tire France SARL	Sales of tire	France	100.00	Dec.
Hankook Espana S. A.	Sales of tire	Spain	100.00	Dec.
Hankook Tyre Australia Pty., Ltd.	Sales of tire	Australia	100.00	Dec.
Hanyang Tire Sales Co., Ltd.	Sales of tire	Korea	100.00	Dec.
Hankook Tire Europe Holdings B.V.	Building European governance	Netherlands	100.00	Dec.
Hankook Tire Hungary Ltd.	Manufacture and sales of tire	Hungary	100.00	Dec.
Hankook Tire Budapest Kereskedelmi Kft	Sales of tire	Hungary	100.00	Dec.
Hankook Tire Italia S.R.L.	Sales of tire	Italy	100.00	Dec.
Hankook Tire Europe GmbH	Support sales of tire	Germany	100.00	Dec.
Hankook Tire Rus LLC	Sales of tire	Russia	100.00	Dec.
Hankook Tire DE Mexico, S.A. DE C.V.	Sales of tire	Mexico	100.00	Dec.
Chongqing Hankooktire Co., Ltd.	Manufacture and sales of tires	China	100.00	Dec.
PT Hankook Tire Indonesia	Manufacture and sales of tires	Indonesia	99.99	Dec.
MKT Holdings Co., Ltd.	Manufacture and sales of tire mold	Korea	50.10	Dec.
MK Mold (Jiaxing) Co., Ltd.	Manufacture and sales of tire mold	China	50.10	Dec.
MK Technology Corp.	Manufacture and sales of tire mold	Korea	50.10	Dec.
Hankook Tire Budapest Kereskedelmi Kft.,Sp.zo.o. Polish Branch	Sales of tire	Poland	100.00	Dec.
Hankook Tire Singapore PTE., Ltd.	Trade and Consulting	Singapore	100.00	Dec.

10. INVESTMENTS IN ASSOCIATES:

(1) The status of the investment in associates as of December 31, 2012 and 2011, is as follows (Korean won in thousands):

Associate	Location	Main Business
Atlas BX Co., Ltd.	Republic of Korea	Manufacturing and sales of storage batteries and dry cells
EmFrontier, Inc.	Republic of Korea	E-business and total systems management service

(2) Details of the Company's investment in associates as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012				
Associate	Reporting Month	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying value
Atlas BX Co., Ltd.	December	2,848,685	31.1	₩ 12,229,979	₩ 94,018,836
EmFrontier, Inc.	December	857,142	30.0	428,571	3,392,171
Total				₩ 12,658,550	₩ 97,411,007

	2011				
Associate	Reporting month	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying value
Atlas BX Co., Ltd.	December	2,848,685	31.1	₩ 12,229,979	₩ 79,702,706
EmFrontier, Inc.	December	857,142	30.0	428,571	2,615,177
Total				₩ 12,658,550	₩ 82,317,883

(3) Details of evaluation using equity method on the Company's investment in associates for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012				
Associate	Beginning balance	Acquisition (Disposal)	Gain on valuation of equity method securities	Other changes	Ending balance
Atlas BX Co., Ltd.	₩ 79,702,706	₩ -	₩ 16,141,872	₩ (1,825,742)	₩ 94,018,836
EmFrontier, Inc.	2,615,177	-	705,155	71,839	3,392,171
Total	₩ 82,317,883	₩ -	₩ 16,847,027	₩ (1,753,903)	₩ 97,411,007

	2011				
Associate	Beginning balance	Acquisition (Disposal)	Gain on valuation of equity method securities	Other changes	Ending balance
Atlas BX Co., Ltd.	₩ 64,260,849	₩ -	₩ 15,341,218	₩ 100,639	₩ 79,702,706
EmFrontier, Inc.	6,145,862	(3,859,947)	329,262	-	2,615,177
Total	₩ 70,406,711	₩ (3,859,947)	₩ 15,670,480	₩ 100,639	₩ 82,317,883

(4) As of December 31, 2012 and 2011, fair value of marketable investment in associates are as follows (Korean won in thousands):

Associate	2012	2011
Atlas BX Co., Ltd.	94,291,474	73,780,942

11. PROPERTY, PLANT AND EQUIPMENT:

Changes in property, plant and equipment for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012							
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Foreign currency translation	Decrease due to spin-off	Ending balance
Land	₩ 319,546,779	₩ -	₩ -	₩ -	₩ (43,436,354)	₩ 241,089	₩ 265,841,860	₩ 10,509,654
Buildings	966,004,511	9,507,637	508,712	20,062,595	45,480,363	662,544	981,898,568	19,185,180
Structures	51,417,959	131,282	1	3,143,080	10,357,590	465,016	58,961,599	267,167
Machinery and equipment	1,399,686,847	4,386,965	20,199,432	169,197,619	212,479,243	(3,930,744)	1,423,225,260	-
Vehicles	13,842,165	455,869	181,523	2,536,536	1,834,255	(74,594)	13,014,606	325,030
Tools furniture and fixtures	304,625,417	32,174,402	11,086,587	48,337,633	31,189,869	(5,046,732)	303,518,714	22
Machinery in transit	16,517,834	181,245,215	-	-	(9,572,681)	(872,183)	187,318,185	-
Construction in progress	261,537,466	393,101,813	19,000	-	(304,408,514)	(2,633,156)	346,399,366	1,179,243
Total	₩ 3,333,178,978	₩ 621,003,183	₩ 31,995,255	₩ 243,277,463	₩ (56,076,229)	₩ (11,188,760)	₩3,580,178,158	₩ 31,466,296

	2011							
	Beginning balance	The change in the scope of consolidation	Acquisition	Disposal	Depreciation	Others	Foreign currency translation	Ending balance
Land	₩ 289,446,326	₩ 1,387,589	₩ 32,942,249	₩ 4,578,985	₩ -	₩ 1,095,952	₩ (746,352)	₩ 319,546,779
Buildings	857,950,724	5,839,416	5,752,740	2,884,276	28,089,927	127,959,375	(523,541)	966,004,511
Structures	54,795,473	5,134	37,960	5,053	4,885,349	3,438,682	(1,968,888)	51,417,959
Machinery and equipment	1,250,873,625	8,275,052	24,485,864	9,708,453	244,703,487	371,995,255	(1,531,009)	1,399,686,847
Vehicles	13,748,484	23,547	374,570	298,591	3,967,189	3,887,671	73,673	13,842,165
Tools furniture and fixtures	286,181,105	9,203,076	35,214,570	8,401,469	75,373,659	57,554,119	247,675	304,625,417
Machinery in transit	9,561,064	-	26,683,979	-	-	(19,955,463)	228,254	16,517,834
Construction in progress	303,690,906	-	498,060,929	-	-	(549,787,167)	9,572,798	261,537,466
Total	₩ 3,066,247,707	₩ 24,733,814	₩ 623,552,861	₩ 25,876,827	₩ 357,019,611	₩ (3,811,576)	₩ 5,352,610	₩ 3,333,178,978

(2) Pledged assets as collateral

As of December 31, 2012, the Company has subscribed to property and comprehensive insurance for its buildings (Refer to Note 34).

12. INVESTMENT PROPERTY:

(1) Changes in investment property for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		
	Land	Buildings	Total
Beginning balance	₩ 49,540,143	₩ 21,092,094	₩ 70,632,237
Acquisition	-	-	-
Disposal	-	-	-
Depreciation	-	790,792	790,792
Others	9,475,154	9,585,161	19,060,315
Decrease due to spin-off	43,978,010	17,178,042	61,156,052
Ending balance	₩ 15,037,287	₩ 12,708,421	₩ 27,745,708

	2011		
	Land	Buildings	Total
Beginning balance	₩ 49,855,948	₩ 16,442,925	₩ 66,298,873
The change in scope of consolidation	428,832	-	428,832
Acquisition	-	2,387,580	2,387,580
Disposal	(256,685)	(184,215)	(440,900)
Depreciation	-	(768,473)	(768,473)
Others	(487,952)	3,061,573	2,573,621
Foreign currency translation	-	152,704	152,704
Ending balance	₩ 49,540,143	₩ 21,092,094	₩ 70,632,237

(2) Details of income and expenditure for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Rental income	₩ 2,707,064	₩ 2,385,540
Training center income	43,388	39,270
Expenditure for operating activities	1,282,862	1,092,007

(3) As of December 31, 2012, the carrying amount of investment property is ₩27,745,708 thousand and fair value is ₩132,234,512 thousand.

13. INTANGIBLE ASSETS:

Changes in intangible assets for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		
	Industrial rights	Other intangible assets	Total
Beginning balance	₩ 3,481,151	₩ 90,291,894	₩ 93,773,045
Acquisition	94,723	649,887	744,610
Disposal	-	630,908	630,908
Depreciation	1,486,907	2,493,371	3,980,278
Others	1,220,432	33,276,263	34,496,695
Decrease due to spin-off	2,879,970	116,471,103	119,351,073
Ending balance	₩ 429,429	₩ 4,622,662	₩ 5,052,091

	2011		
	Industrial rights	Other intangible assets	Total
Beginning balance	₩ 2,069,161	₩ 35,910,781	₩ 37,979,942
The change in the scope of consolidation	775,400	28,479,872	29,255,272
Acquisition	141,928	24,653,914	24,795,842
Disposal	-	60,287	60,287
Depreciation	930,603	2,763,513	3,694,116
Others	1,425,265	4,071,127	5,496,392
Ending balance	₩ 3,481,151	₩ 90,291,894	₩ 93,773,045

14. TRADE AND OTHER ACCOUNTS PAYABLE:

Details of trade and other accounts payable as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Trade payables	₩ -	₩ 488,687,464
Other accounts payable	10,886,294	308,187,479
Accrued expenses	1,580,197	97,007,993
Dividends payable	52,633	52,725
Total	₩ 12,519,124	₩ 893,935,661

15. BORROWINGS:

Details of borrowings as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		2011	
	Current	Non-current	Current	Non-current
Short-term borrowings	₩ -	₩ -	₩ 1,976,429,062	₩ -
Long-term borrowings	-	-	218,380,479	452,726,161
Debentures	-	-	149,945,846	-
Total	₩ -	₩ -	₩ 2,344,755,387	₩ 452,726,161

16. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		2011	
	Current	Non-current	Current	Non-current
Foreign exchange forward liabilities	₩ -	₩ -	₩ 5,785,547	₩ -
Rental deposits	-	8,670,872	-	10,863,564
Total	₩ -	₩ 8,670,872	₩ 5,785,547	₩ 10,863,564

17. RETIREMENT BENEFIT PLAN:

As of December 31, 2012, the last actuarial valuation of plan assets and defined benefit obligation is performed by Mirae Asset Securities Co., Ltd. The valuation of present value of the defined benefit liability, related current service cost and past service cost is determined using the projected unit credit method.

(1) Income and loss related to defined benefit plan for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Current service cost	₩ 24,279,448	₩ 27,349,404
Interest cost	4,824,019	10,096,455
Expected return on plan assets	(3,799,857)	(6,830,760)
Total	₩ 25,303,610	₩ 30,615,099

(2) As of December 31, 2012 and 2011, amounts recognized in the statements of financial position related to retirement benefit obligation are as follows (Korean won in thousands):

	2012	2011
Present value of defined benefit obligation	₩ 12,472,470	₩ 139,551,911
Fair value of plan assets	(10,359,695)	(128,758,501)
Retirement benefit Liabilities	₩ 2,112,775	₩ 10,793,410

(3) Changes in present value of defined benefit obligation for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Beginning balance	₩ 139,551,911	₩ 157,909,645
Current service cost	24,279,448	27,349,404
Interest cost	4,824,019	10,096,455
Actuarial losses before tax	5,539,669	36,242,970
Benefit paid	(7,609,201)	(93,278,472)
The change in the consolidation scope	-	1,231,909
Decrease in obligation due to spin-off	(154,113,376)	-
Ending balance	₩ 12,472,470	₩ 139,551,911

(4) Changes in plan assets for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Beginning balance	₩ 128,758,500	₩ 121,665,079
Expected return on plan assets	3,799,857	6,830,760
Actuarial losses	183,280	(2,045,448)
Benefits paid	(6,162,548)	(53,300,217)
Company contributions	10,300,000	55,388,454
The change in the consolidation scope	-	219,873
Decrease in plan assets due to spin-off	(126,519,394)	
Ending balance	₩ 10,359,695	₩ 128,758,501

18. PROVISIONS:

Changes in provisions for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012							
	Changes						Current classification	
	Beginning balance	Transferred-in	Use	Foreign currency translation	Decrease due to Spin-off	Ending balance	Current	Non-current
Provision for product liabilities(*1)	₩ 9,226,400	₩ -	₩ -	₩ (149,600)	₩ (9,076,800)	₩ -	₩ -	₩ -
Provision for product warranties(*2)	52,568,160	9,538,151	(17,619,370)	(432,848)	(44,054,093)	-	-	-
Long-term debts for employees	13,158,901	1,592,901	(1,024,745)	-	(13,604,310)	122,747	-	122,747
Other provisions	-	224,874	-	-	(224,874)	-	-	-
Total	₩ 74,953,461	₩ 11,355,926	₩(18,644,115)	₩ (582,448)	₩ (66,960,077)	₩ 122,747	₩ -	₩ 122,747

	2011						
	Changes					Current classification	
	Beginning balance	Transferred-in	Use	Foreign currency translation	Ending balance	Current	Non-current
Provision for product liabilities(*1)	₩ 9,111,200	₩ -	₩ -	₩ 115,200	₩ 9,226,400	₩ -	₩ 9,226,400
Provision for product warranties(*2)	40,331,850	36,616,927	(26,792,511)	2,411,894	52,568,160	-	52,568,160
Long-term debts for employees	10,337,009	3,596,519	(774,627)	-	13,158,901	-	13,158,901
Total	₩ 59,780,059	₩ 40,213,446	₩ (27,567,138)	₩ 2,527,094	₩ 74,953,461	₩ -	₩ 74,953,461

(*1) The Company recognized additional estimated cost as provision on the potential losses under Product Liability Act.

(*2) The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Estimation is based on the past experience of provision for product warranties, but can be affected by other events relating to new materials, change on production process, the quality of products.

19. OTHER LIABILITIES:

Details of other liabilities as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		2011	
	Current	Non-current	Current	Non-current
Advance received	₩ -	₩ -	₩ 80,617,910	₩ -
Withholdings	900,889	-	228,780,782	-
Unearned revenue	-	-	47,070,431	-
Others	-	-	1,828,594	-
Total	₩ 900,889	₩ -	₩ 358,297,717	₩ -

20. CAPITAL STOCK:

Details of capital stock as of December 31, 2012 and 2011, are as follows (Korean won in thousands except per share and per value amounts):

	2012	2011
Authorized (shares)	250,000,000	250,000,000
Par value	₩ 500	₩ 500
Outstanding (shares):		
Ordinary share	28,314,860	152,189,929
Capital stock:		
Common stock	₩ 14,157,430	₩ 76,094,965

As of December 31, 2012, the Company holds 1,325,086 ordinary shares in treasury, to stabilize the market price of its shares of stock, and records treasury stock as other paid-in capital. Further appropriation of them is not determined.

21. OTHER PAID-IN-CAPITAL:

Details of other paid-in capital as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

		2012		2011
Paid-in capital in excess of par value	₩	323,420,209	₩	115,653,338
Other capital surplus		50,462,573		53,924,347
Treasury stocks		(11,092,609)		(57,318,201)
Loss from capital reduction		(5,606,451,799)		-
Total	₩	(5,243,661,626)	₩	112,259,484

22. RETAINED EARNINGS AND DIVIDENDS:

(1) Details of retained earnings as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

		2012		2011
Legal reserve:				
Earned surplus reserve(*1)	₩	39,260,000	₩	39,260,000
Subtotal		39,260,000		39,260,000
Voluntary reserve:				
Reserve for financial structure improvements		19,320,000		19,320,000
Reserve for revaluation (*2)		443,289,239		443,289,239
Reserve for business rationalization		46,585,000		46,585,000
Reserve for export losses		4,770,000		4,770,000
Reserve for technology development		3,970,000		3,970,000
Reserve for overseas market development		7,369,667		7,369,667
Dividend equalization reserve		560,500,000		460,500,000
Reserve for officer's retirement benefits		93,918,000		83,918,000
Other voluntary reserve		1,240,600,000		848,600,000
Subtotal		2,420,321,906		1,918,321,906
Unappropriated retained earnings		3,589,502,287		876,252,739
Total	₩	6,049,084,193	₩	2,833,834,645

(*1) The Commercial Law of the Republic of Korea requires the Company to appropriate a portion of retained earnings as a legal reserve in an amount equal to a minimum of 10% of its cash dividends, until such reserve equals 50% of its capital stock. The reserve is not available for the payment of cash dividends but may be transferred to common stock or used to offset accumulated deficit, if any, through a resolution of shareholders.

(*2) According to the past assets revaluation law, we conducted assets revaluation and appropriated revaluation gains for revaluation reserve. This revaluation surplus is not allowed to use as financial resources of dividends, but it is allowed to use only for capitalization or preservation of losses.

(2) Details of dividend payments as of December 31, 2012 and 2011, are as follows (Korean won except per share):

		2012		2011
Outstanding shares issued (shares)	₩	152,189,929	₩	152,189,929
Treasury stocks (shares)		7,000,000		7,000,000
Dividend shares (shares)		145,189,929		145,189,929
Dividend per share		400		350
Total dividend	₩	58,075,971,600	₩	50,816,475,150

23. OTHER EQUITY:

Details of other capital components as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Losses on valuation of AFS securities, net	₩ 4,921,785	₩ (1,035,868)
Cash flow hedging reserve	-	-
Gains on translation of foreign operations	-	184,956,904
Equity changes due to investment securities accounted for using the equity method	750,688	(220,893)
Total	₩ 5,672,473	₩ 183,700,143

24. OPERATING REVENUE OF CONTINUING OPERATION:

Operating revenue of continuing operation for the year ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Rental sales	₩ 2,707,064	₩ 2,385,539
Training center revenue	43,388	39,270
SSC sales	5,961,406	-
Trademark right revenue	13,376,481	-
Dividend payments	395,684	159,291
Gains using equity method	16,847,026	15,670,480
Total	₩ 39,331,049	₩ 18,254,580

25. OPERATING EXPENSES OF CONTINUING OPERATION:

Operating expense of continuing operation for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Payroll	₩ 8,815,186	₩ 8,847,063
Provision for severance benefits	1,098,494	948,753
Utility expenses	482,337	241,044
Depreciation	1,835,891	1,877,072
Repair expenses	289,410	308,520
Supplies expenses	77,077	59,442
Taxes and dues	718,726	18,492
Insurance	101,820	73,247
Employee benefits	1,126,968	842,287
Travel expenses	529,085	544,879
Communication expenses	855,597	1,166,966
Service expenses	475,383	396,560
Fees and charges	2,003,929	580,096
Entertainment expenses	553,020	520,744
Publication expenses	162,800	271,371
Training expenses	754,002	149,434
Vehicles maintenance expenses	35,951	1,304
Advertisement expenses	5,190,365	5,770,448
Provision for doubtful accounts	-	563

		2012		2011
Conference expenses		36,324		-
Miscellaneous expenses		559,534		167,445
Total	₩	25,701,899	₩	22,785,730

26. FINANCIAL INCOME:

(1) Details of financial income for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

		2012		2011
Interest revenue				
Short-term financial assets	₩	7,931,835	₩	8,589,282
Trade and other accounts receivable		1,907,115		1,039,798
AFS financial assets		863,799		956,019
Subtotal		10,702,749		10,585,099
Gain on disposal and evaluation of dealing securities, net		1,400,667		-
Gain on disposal of AFS securities		6,515		2,576,554
Gain on foreign exchange forward transaction		915,348		-
Gain on valuation of foreign exchange forward contracts		2,381,793		-
Gain on foreign currency transaction		5,880,323		8,969,463
Gain on foreign currency translation		71,005		7,399,789
Total	₩	21,358,400	₩	29,530,905

(2) Details of financial income by categories for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

		2012		2011
Loans and receivables	₩	9,838,949	₩	9,629,079
HTM financial assets		1,400,667		-
AFS financial assets		870,314		3,532,573
Designated hedge derivatives		3,297,141		-
Subtotal		15,407,071		13,161,652
Gain on foreign currency transaction from deposits in foreign currency		5,880,324		8,969,463
Gain on foreign currency translation from deposits in foreign currency		71,005		1,285,790
Gain on foreign currency translation from short-term loans		-		6,114,000
Total	₩	21,358,400	₩	29,530,905

27. FINANCIAL EXPENSES:

Details of financial expenses for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

		2012		2011
Loss on disposal and evaluation of dealing securities, net	₩	-	₩	4,884,364
Impairment loss on disposal of AFS securities		10,000,000		-
Loss on disposal of AFS securities		2,301		15,961
Loss on valuation of foreign exchange forward contracts		-		5,563,448
Loss on foreign currency transaction from deposits in foreign currency		8,145,414		10,679,848
Loss on foreign currency translation from deposits in foreign		2,571,931		152,986

	2012		2011	
currency				
Loss on foreign currency translation from loans in foreign currency		7,845,800		57,000
Total	₩	28,565,446	₩	21,353,607

28. OTHER NON-OPERATING INCOME AND EXPENSE:

(1) Details of other non-operating income for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		2011	
Gains on disposal of securities in associates	₩	-	₩	812,056
Gains on disposal of property, plant and equipment		4,999		-
Rental income		1,381,755		1,223,280
Miscellaneous income		19,245		-
Total	₩	1,405,999	₩	2,035,336

(2) Details of other non-operating expense for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012		2011	
Losses on disposal of other assets	₩	-	₩	60,287
Losses on disposal of property, plant and equipment		-		1
Miscellaneous expenses		15,332		-
Losses on disposal of intangible assets		76,416		-
Total	₩	91,748	₩	60,288

29. INCOME TAX EXPENSE OF CONTINUING OPERATAION

Income tax expense for the years ended December 31, 2012 and 2011, is as follows (Korean won in thousands):

	2012		2011	
Income tax of continuing operation				
Current income tax of the Company		503,090		6,290,444
Income tax of investments in associates		1,882,531		1,597,444
Subtotal		2,385,621		7,887,888
Income tax of discontinued operation				
Current income tax of the Company		78,696,330		103,961,471
Income tax of investments in subsidiaries before spin-off		41,999,990		27,702,768
Tax effect for adjusting consolidation before spin-off		(39,324,741)		(15,181,162)
Subtotal		81,371,579		116,483,077
Total	₩	83,757,200	₩	124,370,965

30. EARNINGS PER SHARE:

(1) The Company's basic and diluted earnings per share from continuing operation for the years ended December 31, 2012 and 2011, are computed as follows (Korean won in thousands):

	2012	2011
Net income of continuing operation for controlling interest	₩ 5,350,734,582	₩ (2,266,692,059)
Dividends for preferred stock	-	-
Net income available for common shareholders	5,350,734,582	(2,266,692,059)
Weighted-average number of common shares outstanding	106,115,190 shares	145,189,929 shares
Basic and diluted earnings per share	₩ 50	₩ (16)

(2) The Company's basic and diluted earnings per share of discontinued operation for the years ended December 31, 2012 and 2011, are computed as follows (Korean won in thousands):

	2012	2011
Net income of discontinued operation for controlling interest	₩ 3,272,292,562,498	₩ 357,984,048,695
Dividends for preferred stock	-	-
Net income available for common shareholders	3,272,292,562,498	357,984,048,695
Weighted-average number of common shares outstanding	106,115,190 shares	145,189,929 shares
Basic and diluted earnings per share	₩ 30,837	₩ 2,466

31. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2012, are as follows:

Type	Name of related parties
Individuals	Yang-Rai Cho, Hyun-Shick Cho, Hyun-Bum Cho
Domestic Subsidiaries (*1)	Daehwa Engineering & Machinery Co., Ltd., Hanyang Tire Sales Corp., MKT Holdings Co., Ltd, MK Technology Corp.
Overseas Subsidiaries (*2)	Hankook Tire America Corp., Hankook Tyre U.K. Ltd., Jiangsu Hankook Tire Co., Ltd., Hankook Tire China Co., Ltd., Shanghai Hankook Tire Sales Co., Ltd.(*3) Hankook Tire Netherlands B.V., Hankook Tire Japan Corp., Hankook Tire Canada Corp., Hankook Reifen Deutschland GmbH, Hankook Tire France SARL, Hankook Tire Italia S.R.L., Hankook Espana S.A., Hankook Tyre Australia Pty., Ltd., Hankook Tire Hungary Ltd., Hankook Tire Europe Holdings B.V, Hankook Tire Europe GmbH, Hankook Tire Budapest Kereskedelmi Kft, Hankook Tire DE Mexico, S.A. DE C.V., Chongqing Hankooktire Co., Ltd., Hankook Tire Rus LLC, PT Hankook Tire Indonesia, MK Mold (Jiaxing) Co., Ltd., Hankook Tire Singapore PTE., Ltd., Hankook Tire Budapest Kereskedelmi Kft.,Sp.zo.o. Polish Branch, Hankook Tire Malaysia SDN.BHD.
Others (*2)	Hankook Tire Co., Ltd., Atlas BX Co., Ltd., EmFrontier Inc., Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery Jiaxing Co., Ltd., Anothen WTE Co., Ltd., H-2 WTE Co., Ltd., Frixa Co., Ltd., Atlas BX Motorsports Co., Ltd., Anothen Geumsan Co., Ltd.

(*1) All the domestic and overseas subsidiaries have been transferred to the new company by the spin-off on September, 2012

(*2) Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Anothen WTE Co., Ltd., H-2 WTE Co., Ltd. and Anothen Geumsan Co., Ltd., are the affiliates of the Company. However, the Company does not hold any shares of those affiliates.

(*3) The former name: Hankook Tire China Regional Headquarter

(2) Transactions between the Company and subsidiaries before the spin-off are eliminated by consolidation and not disclosed in the note.

1) Transactions between the Company and related parties for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Sales transaction and others	₩ 21,908,171	₩ 37,453
Purchase transaction and others	10,519	103,141,449

2) Outstanding balances of receivables and payables as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Accounts receivables and others	₩ 208,251,537	₩ 5,176
Accounts payables and others	1,498,569	34,136,058

3) Loans to related parties for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

	Beginning	Change by spin-off	Change by exchange rate fluctuation	Ending
Chongqing Hankook Tire Co., Ltd.	₩ -	₩ 90,500,880	₩ (4,053,800)	₩ 86,447,080
Jiangsu Hankook Tire Co., Ltd.	-	34,038,000	(1,905,000)	32,133,000
Hankook Tire China Co., Ltd.	-	34,038,000	(1,905,000)	32,133,000
Total	₩ -	₩ 158,576,880	₩ (7,863,800)	₩150,713,080

4) The Company has provided guarantees with respect to financing by its overseas subsidiaries for the years ended December 31, 2012 and 2011. The remaining guarantees provided before spin-off were transferred to the new company and the Company is severally and jointly liable for the remaining guarantees. The guarantees provided to the related parties including overseas subsidiaries are as follows (Korean won in thousands):

		Line of credit			
		2012		2011	
Debtor	Unit	Foreign currency	Korean won	Foreign currency	Korean won
Hankook Tire China Co., Ltd.	USD	80,000,000	₩ 85,688,000	120,000,000	₩ 138,396,000
	CNY	-	-	250,000,000	45,627,500
Hankook Tire Europe GmbH	EUR	15,000,000	21,243,900	20,000,000	29,882,000
Hankook Tire Hungary Ltd. (*1)	EUR	540,500,000	765,488,530	529,750,000	791,499,475
	HUF	16,097,000,000	78,392,390	16,097,000,000	77,426,570
	USD	-	-	10,000,000	11,533,000
Hankook Tire Italia S.R.L.	EUR	-	-	10,000,000	14,941,000
Hankook Tire Netherlands B.V.	EUR	4,854,441	6,875,151	4,854,441	7,253,020
Jiangsu Hankook Tire Co.,Ltd.	USD	60,000,000	64,266,000	60,000,000	69,198,000
Chongqing HankookTire Co.,Ltd	USD	70,000,000	74,977,000	40,000,000	46,132,000
PT. HANKOOKTIRE INDONESIA	USD	170,000,000	182,087,000	50,000,000	57,665,000
Hankook Tire China Co., Ltd., Jiangsu Hankook Tire Co.,Ltd., Chongqing Hankook Tire Co.,Ltd.	USD	60,000,000	64,266,000	-	-
Hankook Tire Singapore PTE., Ltd.	USD	120,000,000	128,532,000	-	-
Total	USD	440,000,000	471,284,000	280,000,000	322,924,000
	EUR	680,354,441	922,139,581	564,604,441	843,575,495
	HUF	16,097,000,000	78,392,390	16,097,000,000	77,426,570
	CNY	-	-	250,000,000	45,627,500
	Total		₩ 1,471,815,971		₩ 1,289,553,565

(*1) The above guarantee amount includes direct suretyship provided to the Hungarian Government as follows:

	Description
Summary of agreements	To certify that the Company should sincerely carry out the investment plan according to the investment contract; otherwise, the Company should return some or whole amount of the subsidy provided by the Hungarian Government.
Guarantee provided	HUF 15,881,000,000 + interest incurred
The term of guarantee	From October 31, 2005 to December 31, 2017

As of December 31, 2012, Hankook Tire Co., Ltd.(the new company) and the Company are jointly engaged in the subordination agreement with regard to the borrowings of Hankook Reifen Deutschland GmbH and Hankook Tyre U.K. Ltd.

	Description		
Creditor bank	Korea Exchange Bank (Deutschland) AG	Shinhan Bank (Deutschland) GmbH	Korea Exchange Bank (England) AG
Borrowings	EUR 20,000,000	EUR 9,500,000	GBP 5,000,000
Subsidiaries	Hankook Reifen Deutschland GmbH	Hankook Reifen Deutschland GmbH	Hankook Tyre U.K. Ltd.
Description	The Company's accounts receivable from Hankook Reifen Deutschland GmbH and Hankook Tyre U.K., Ltd. are subordinated by the borrowings from those banks.		

In regard to the borrowings amounting to ₩44,471,403 thousand of MKT Holdings Co., Ltd. as of December 31, 2012, Hankook Tire Co., Ltd.(the new company) and the Company have provided CDS (Credit default swap) agreement to the creditors including Korea Development Bank. The maximum amount guaranteed is ₩58,500,000 thousand.

The Company stands joint surety for the liabilities incurred before the spin-off with Hankook Tire Co., Ltd., the new company (See Note 35).

Jointly with Hankook Tire Co., Ltd. (the new company), the Company is provided guarantees by Korea Trade Insurance Corporation in regard to the agreements of guarantees with Mizuho Corporate Bank (USD 80,000,000), Sumitomo Mitsui Banking Corporation (USD 140,000,000) and ING Bank (EUR 160,000,000).

(3) Compensation for key management personnel for the years ended December 31, 2012 and 2011 is as follows (Korean won in thousands):

	2012	2011
Short-term benefits	₩ 2,259,813	₩ 3,069,851
Severance and retirement benefits	423,927	515,265
	₩ 2,683,740	₩ 3,585,116

32. Cash and cash equivalents:

Cash and cash equivalents consist of cash and bank deposit minus overdraft on the statements of cash flows. As of December 31, 2012 and 2011, Cash and cash equivalents of the financial statements is calculated as follows (Korean won in thousands):

	2012	2011
Cash and bank deposit	₩ 85,418,967	₩ 635,195,528
Less : Overdraft	-	-
Cash and cash equivalents	₩ 85,418,967	₩ 635,195,528

33. FINANCIAL INSTRUMENTS:

(1) Capital management

The Company manages its capital to ensure that entities under the Company will be able to continue while maximizing the return to shareholders through the optimization of its debt and equity balance. The Company's overall strategy remains unchanged from that of the prior periods.

The Company utilizes the debt ratio as capital management index which is the total liabilities divided by the total equity. Total liabilities and total equity are based on the amounts stated in the financial statements.

The Company is not subject to any externally imposed capital requirements.

The debt ratio as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

	2012	2011
Total liabilities	₩ 149,058,759	₩ 4,219,681,477
Total shareholders' equity	825,252,470	3,216,698,137
Debt ratio	18.06%	131.18%

(2) The accounting policies and methods (including recognition, measurement, and related gain (loss) recogniti on) adopted to the Company's financial assets, financial liabilities and equity are detailed in Note 2.

(3) Categories of financial instruments as of December 31, 2012 and 2011, are as follows (Korean won in thousands):

1) Financial Assets

		2012		2011	
Categories	Account	Book value	Fair value	Book value	Fair value
Derivative financial assets	Other financial assets	₩ 2,381,793	₩ 2,381,793	₩ -	₩ -
Financial assets at FVTPL	Financial assets at FVTPL	6,983,394	6,983,394	5,512,110	5,512,110
Financial assets AFS	AFS financial assets	289,960,804	289,960,804	14,176,021	14,176,021
Loans and receivables	Cash and cash equivalents	85,418,967	85,418,967	635,195,528	635,195,528
	Short-term financial assets	215,498,911	215,498,911	297,355,247	297,355,247
	Trade receivables	56,101,909	56,101,909	1,076,421,707	1,076,421,707
	Accounts receivable	789,014	789,014	333,424,206	333,424,206
	Accrued income	3,762,534	3,762,534	6,527,676	6,527,676
	Short-term loans	150,713,080	150,713,080	9,931,601	9,931,601
	Deposits provided (current)	-	-	2,169,419	2,169,419
	Long-term financial assets	-	-	132,030	132,030
	Long-term loans	-	-	3,851,831	3,851,831
	Deposits provided	-	-	6,456,826	6,456,826
	Total	₩ 811,610,406	₩ 811,610,406	₩2,391,154,202	₩ 2,391,154,202

2) Financial Liabilities

Categories	Account	2012 Book value	2012 Fair value	2011 Book value	2011 Fair value
Derivative financial liabilities	Other financial liabilities	₩ -	₩ -	₩ 5,785,547	₩ 5,785,547
Financial liabilities at amortized cost	Trade payables	-	-	488,687,464	488,687,464
	Accounts payable	10,886,294	10,886,294	308,187,479	308,187,479
	Dividends payable	52,633	52,633	52,725	52,725
	Accrued expenses	1,580,197	1,580,197	97,007,992	97,007,992
	Short-term borrowings	-	-	1,976,429,062	1,976,429,062
	Current portion of long-term liabilities	-	-	368,326,326	368,326,326
	Long-term borrowings	-	-	452,726,161	452,726,161
	Debentures	-	-	-	-
	Rental deposits	8,670,872	8,670,872	10,863,564	10,863,564
	Total	₩ 21,189,996	₩ 21,189,996	₩3,708,066,320	₩ 3,708,066,320

(4) Financial risk management

1) Purpose of financial risk management

The Company is exposed to various risks related to its financial instruments, such as market risk (currency risk, interest rate risk, price risk), credit risk and liquidity risk. The finance department of the Company mangages operations, organizes the approach to financial market and controls the financial risks related to operations of the Compnay through internal risk reports which analyze the scope and degree of each risk factor.

The Company uses derivative financial instruments to hedge against the risks listed. The use of derivatives is decided in the observance of the Company's polices approved by the board of the directors. They provide the documented principles of currency risk, interest rate risk, credit risk, use of derivatives/non- derivatives and excessive liquidity investments. The audit committee constantly oversees the observance of the policies and the degree of risk exposure. The Company does not trade the financial instruments including derivatives for the speculative purpose.

The finance department of the Company report the details quarterly to Foreign Exchange Risk Management Committee monitoring whether the Company continues to comply with the risk management policies and the current risk management system works appropriately for the risks that the Company is exposed to.

2) Market risk

Operations of the Company are mainly exposed to financial risks of changes in currency and interest rate. The Company makes various contracts of derivatives for management of interest risk and foreign exchange rate.

a) Foreign currency risk management

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than the functional currency as of December 31, 2012, is as follows (Korean won in thousands):

	2012 Assets	2012 Liabilities
USD	96,614,720	-
CNY	55,927,436	-

The Company's sensitivity to a 10% increase and decrease in the KRW (functional currency of the Company) against the major foreign currencies as of December 31, 2012, is presented in the table below (Korean won in thousands). The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates. Also, it covers intra-company loans to foreign operations denominated in other currencies than those of creditors and debtors as well as loans to external parties. A positive number below indicates an increase in profit and other equity where the KRW weakens 10% against the relevant currency. For a 10% strengthening of the KRW against the relevant currency, there would be an equal and opposite impact on the profit and other equity (Korean won in thousands):

	2012	
	Profit or loss	Equity
USD	9,661,472	-
CNY	5,592,744	-

b) Interest rate risk

The Company is exposed to interest rate risk since it borrows funds with fixed and variable interest rates. The Company maintains a balance between borrowings with variable interest rate and fixed interest rate or commits interest swap contract to manage interest rate risk. Risk aversion activity is evaluated regularly to reconcile changes in interest rate with defined risk propensity so that the optimized risk aversion strategy can be implemented.

The book value of liability exposed to interest rate risk as of December 31, 2012 and 2011, is as follows (Korean won in thousands):

	2012	2011
Borrowings (Floating rate)	₩ -	₩ 1,711,747,965

① Interest rate sensitivity analysis

The sensitivity analysis is performed with the assumption that liabilities with variable interest rates at the end of fiscal year existed during the corresponding year end, based on exposures to interest rate risk of both derivative and non-derivative instruments. When reporting interest rate risk to management internally, an analysis based on an increase/decrease of 50 basis points is used, this represents the management consideration for a reasonable possibility of change in interest rates.

Based on the sensitivity analysis, assuming all other variables to be the same, if interest rate is 50bp higher/lower than current interest rates, the Company's income would vary as follows (Korean won in thousands):

	50 bp increase		50 bp decrease	
	Profit or loss	Equity	Profit or loss	Equity
December 31, 2012	₩ -	₩ -	₩ -	₩ -
December 31, 2011	(8,558,740)	(8,558,740)	8,558,740	8,558,740

For the year ended December 31, 2012, the Company's interest rate sensitivity increased because of increase in floating rate borrowings. The degree of exposure to interest rate risk of financial assets (liabilities) is explained further in 4) Liquidity risk management.

c) Other price risks

The Company is exposed to equity price risks arising from its equity investments. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade these investments.

When all the other variables are constant and when the price of equity instrument and trading securities changes by 5%, the effect to comprehensive income as of December 31, 2012 and 2011, will be as follows (before tax effect, Korean won in thousands):

	2012	2011
Equity instruments held for trading	₩ 349,170	₩ 306,638
AFS equity instruments	13,433,423	33,485

The price sensitivity of the Company indicated no significant change for the years ended December 31, 2012 and 2011.

3) Credit risk management

Credit risk refers to risk of financial losses to the Company when the counterpart defaults on the obligations of the contracts. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only deals with the customers rated higher than investment grade by the independent credit rating agencies. If those grades are not available, customers' credit is evaluated upon their other financial information, sales figures and other factors posted publicly. The Company regularly monitors customers' credit ratings, checks on the credit risk exposure and readjusts deposit or aggregate amount of transactions. The aggregate risks are allocated to total portfolio of approved customers for diversification effect that are reviewed and approved annually by Foreign Exchange Risk Management Committee.

Trade receivables can be categorized into various regions and industries in quantity. Credit ratings of trade receivables are evaluated constantly and credit guarantee contracts are made, if necessary. The maximum exposure of financial guarantee contracts is the largest amount which the Company should pay at worst and is as follows (Korean won in thousands):

	2012
Financial guarantee contracts	₩ 1,471,815,971

Of the financial assets exposed to credit risk, other financial assets excluded from financial guarantee contracts are not stated above because their book values represent the maximum exposure to credit risk better than any other.

4) Liquidity risk management

The Company has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The board of directors has a full reponsiblity of the liqudity risk management. The Company manages liquidity risk by maintaining adequate reserves and credit facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. To decrease the liquidity risk, the details of credit facilities agreements are explained in Note 34.

5) Details of liquidity and interest rate risk

The table below illustrates remaining contractual maturity of non-derivative financial liabilities in detail. Contractual maturity is based on the earliest day when the payment can be claimed to the Company. The cash flows in the table indicate that the principal and interest are not discounted and the interest cash flows of floating interest rate are derived from the yield curve at the end of the reporting period.

Maturity analysis of non-derivative financial liabilities according to their remaining maturity as of December 31, 2012, is as follows (Korean won in thousands):

	2012			
	Within a year	1-5 years	After 5 years	Total
Interest-free:				
Accounts payable	₩ 10,886,294	₩ -	₩ -	₩ 10,886,294
Accrued expenses	1,580,197	-	-	1,580,197
Dividends payable	52,633	-	-	52,633
Rental deposits	8,670,872	-	-	8,670,872
Total	₩ 21,189,996	₩ -	₩ -	₩ 21,189,996

The second table illustrates remaining contractual maturity of non-derivative financial assets in detail. The cash flows in the table indicate the principal and interest not discounted and the interest cash flows of floating interest rate are derived from the yield curve at the end of the reporting period. To understand the liquidity management of the Company, the details of non-derivative financial assets are stated because the liquidity is monitored and managed in terms of net assets (liabilities).

Maturity analysis of non-derivative financial assets according to their remaining maturity as of December 31, 2012, is as follows (Korean won in thousands):

	2012			
	Within a year	1-5 years	After 5 years	Total
Interest-free:				
Trade receivables	₩ 56,101,909	₩ -	₩ -	₩ 56,101,909
Accounts receivable	789,014	-	-	789,014
Accrued income	3,762,534	-	-	3,762,534
Fixed rate financial instrument:				
Cash and cash equivalents	85,418,967	-	-	85,418,967
Short-term financial assets	215,498,911	-	-	215,498,911
Financial assets at FVTPL	6,983,394	-	-	6,983,394
Short-term loans	150,713,080	-	-	150,713,080
Financial assets AFS	269,023,770	2,000,000	18,937,034	289,960,804
Total	₩ 788,291,579	₩ 2,000,000	₩ 18,937,034	₩ 809,228,613

The realized amount of floating interest rate instrument (non-derivative financial assets and liabilities) can be different from the amount stated in the tables if floating interest rate change off the track of estimation. As of the end of reporting period, the unused balance of outstanding credit facilities agreement is ₩9,833,975 thousand in 2012 (₩1,431,599,845 thousand in 2011). The Company anticipates that operating cash flows and maturity amount of financial assets would be enough for the repayment.

The table indicates the analysis of non-deliverable derivative instruments in each maturity date based on the remaining period. The amount of the derivative instruments is based on undiscounted net cash inflows and outflows considering the terms of each contract (Korean won in thousands):

	Within a month	1-3 months	3-12 months	Total
Net Settlement :				
Currency forward contracts	₩ -	₩ 2,381,793	₩ -	₩ 2,381,793

(5) Fair value of financial instruments

The fair values of financial instruments (i.e., financial assets held for trading and financial assets AFS) traded on active markets are determined with reference to quoted market prices. The Company uses the closing price as the quoted market price for its financial assets.

The fair values of financial instruments not traded on an active market (i.e., over-the-counter derivatives) are determined using a valuation technique. The Company uses various valuation techniques using assumptions based on current market conditions. The fair values of long-term liabilities and financial liabilities available for settlement are determined using prices from observable current market transactions and dealer quotes for similar instruments. Where such prices are not available, a discounted cash flow analysis or other valuation technique is performed to measure their fair values.

The fair values of trade receivable and trade payables are approximated as their carrying value less impairment loss. The Company estimates the fair values of financial liabilities as the present value of future contractual cash flows discounted based on current market rates applied to similar financial instruments.

Financial instruments that are measured subsequent to initial recognition at fair value are classified into Levels 1 to 3, based on the degree to which the fair value is observable, as described below:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within 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: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments that are measured subsequent to initial recognition at fair value as of December 31, 2012, is as follows (Korean won in thousands):

	2012			
	Level 1	Level 2	Level 3	Total
Dealing securities:	₩ 6,983,394	₩	₩ -	₩ 6,983,394
Financial assets AFS:				
Marketable equity instruments	268,668,466			268,668,466
Nonmarketable equity instruments	-		355,303	355,303
Nonmarketable debt instruments		18,937,034	2,000,000	20,937,034
Derivative instruments:		2,381,793		2,381,793
Total	₩ 275,651,860	₩ 21,318,827	₩ 2,355,303	₩ 299,325,990

There was no replacement between Level 1 and Level 2 for the reporting and comparative period.

Changes in Level 3 financial assets for the years ended December 31, 2012, is as follows (Korean won in thousands):

	2012				
	Beginning balance	Net income	Disposals	Decrease due to spin-off	Ending balance
Financial assets AFS:					
Nonmarketable equity instruments	₩ 12,000,000	₩ (10,000,000)	₩ -	₩ -	₩ 2,000,000
Nonmarketable debt instruments	1,506,327	-	-	(1,151,024)	355,303

Nonmarketable equity instruments which recognized other comprehensive income have been listed on the Korea exchange during the reporting period. Gain (loss) on valuation of these instruments is classified as gain (loss) on valuation of AFS securities.

34. COMMITMENTS AND CONTINGENCIES:

(1) Details of insurance products

As of December 31, 2012, details of insurance provided to the Company are as follows (Korean won in thousands):

Product	Property insured	Sum insured	Beneficiary
Property All Risks (*1)	Buildings	₩ 77,283,451	The Company
Movable All Risks (*2)	Other investments (paintings)	1,606,669	The Company
Total		₩ 78,890,120	

(*1) The product covers any loss or damage to the insured property by fire, lightning, flood, storm, earthquake, burglary, etc. of contingency.
(*2) The product covers any loss or damage to breakdown or failure of the machinery and equipment insured.

In addition, vehicles are insured against a general and liability insurance policy.

(2) Outstanding credit facilities agreement

Details of outstanding credit facilities agreement of the Company as of December 31, 2012, is as follows (all currencies in thousands):

Description	Financial institutions	Currencies	Credit amount
Purchase card agreements	Woori Bank and others	KRW	5,000,000
Bank overdraft agreements	Woori Bank and others	KRW	5,000,000
Agreements to forward exchange contracts	Standard Chartered Bank Korea and others	USD	30,000
Total		KRW	10,000,000
		USD	30,000

(3) Purchase agreement

As of December 31, 2012, the Company has a long-term contract with EmFrontier Inc., one of its affiliated companies, to be provided with maintenance service for the Company's information system.

35. DISCLOSURE OF SPIN-OFF AND DISCONTINUED OPERATIONS:

(1) The surviving company and the new company

As of September 1, 2012, the Company has separated into the investment business unit and the tire business unit by the resolution of the board of the directors on April 25, 2012 and the approval of the shareholders' meeting on July 27, 2012. The former (the surviving company, Hankook Tire Worldwide Co., Ltd.) engages in the subsidiary management and real estate rental business and the latter (the new company, Hankook Tire Co., Ltd.) engages in manufacturing, processing and distribution of tires, tubes and parts. By doing so, it is intended that each company can establish the corporate governance of the immediate and professional decision making specialized in each business nature. Also, business risk hedge is the other purpose.

	Content
Method	Spin-off
Companies	Hankook Tire Worldwide Co., Ltd. (the surviving company), Hankook Tire Co., Ltd. (the surviving company)
Date of spin-off	September 1, 2012

(2) General information of spin-off

1) Method of spin-off

Under the second and the twelveth of Article 530 of the Commercial Law, the tire business unit has been spun off by the method of allotting newly issued shares of the new company to the shareholders in proportion to the percentage of ownership.

Hence, newly issued shares of the new company have been allotted by the ratio of 0.8139505 per share for the shareholders registered on the stockholders' list. The ratio is based on financial statements for the year ended December 31, 2011.

2) The amount of assets and liabilities transferred to the new company

Components of the assets and liabilities transferred to the consolidated financial statements of the new company for the year ended December 31, 2012 are as follows (Korean won in thousands):

		Hankook Tire Co., Ltd. and its subsidiaries
Assets		
Current assets	₩	3,539,533,411
Non-current assets		3,872,500,339
Total	₩	7,412,033,750
Liabilities		
Current liabilities	₩	3,203,271,463
Non-current liabilities		1,143,095,893
Total	₩	4,346,367,356
Net asset	₩	3,065,666,394

3) Succession of rights and obligations

All of the positive and passive property rights and duties including those under public law and economically valuable fact relevance (licensing, labor relationship, contractual relationship, litigations, etc.) about the tire business unit belong to the new company in principle. The others should belong to the surviving company consequently.

4) Liabilities of companies derived from spin-off

Under the first clause of third of Article 530 of the Commercial Law, the spin-off has been implemented by the special resolution at shareholders' meeting. According to the first clause of ninth of Article 530, the new and surviving companies are severally and jointly liable for the debts incurred before the spin-off.

(3) Accounting method of spin-off

1) The differences between fair value and book value of the asset and liabilities transferred to the new company are recognized as gain (loss) on disposal of discontinued operations.

2) The excess amount of the transferred net asset over the decrease in equity by stock consolidation is recognized as other paid-in capital (loss on capital reduction).

(4) Disclosure of discontinued operations

The result of operations of newly incorporated tire business unit is stated as discontinued operations and distinguished from continuing operations. In the statement of comprehensive income, the accounts of the comparative period are reclassified to be matched with the account of the reporting period for better comparability.

Net income of discontinued operations for the years ended December 31, 2012 and 2011, is as follows (Korean won in thousands):

		2012		2011
Sales	₩	4,721,423,219	₩	6,486,548,444
Cost of sales		(3,328,691,292)		(4,813,903,368)
Gross profit		1,392,731,927		1,672,645,076
Selling expense		(379,867,879)		(548,568,138)
Administrative expenses		(305,159,888)		(408,990,071)
Research and development expenses		(84,348,180)		(116,721,481)
Operating income		623,355,980		598,365,386
Financial income		101,645,996		97,495,216
Financial expense		(94,260,956)		(209,841,417)
Other non-operating income		179,089,630		301,777,531
Other non-operating expense		(196,299,081)		(313,826,007)
Gain on disposal of discontinued operations		2,739,647,744		-
Income before income tax expense		3,353,179,313		473,970,709
Income tax expense		(81,371,579)		(116,483,077)
Net income of discontinued operations	₩	3,271,807,734	₩	357,487,632

(5) Cash flow of discontinued operation for the years ended December 31, 2012 and 2011, are as follows (Korean won in thousands):

		2012		2011
Cash flow from operating activities	₩	469,632,093	₩	169,745,207
Cash flow from investing activities		(563,462,041)		(750,590,910)
Cash flow from financing activities		361,017,965		707,303,016

Independent Accountants' Review Report on Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Representative Director of
Hankook Tire Worldwide Co., Ltd.

We have reviewed the accompanying Report on the Management's Assessment of IACS (the "Management's Report") of Hankook Tire Worldwide Co. Ltd. (the "Company"), as of December 31, 2012. The Management's Report and the design and operation of IACS are the responsibility of the Company's management. Our responsibility is to review the Management's Report and issue a review report based on our procedures. The Company's management stated in the accompanying Management's Report that "based on the assessment of the IACS as of December 31, 2012, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2012, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association."

We conducted our review in accordance with the IACS Review Standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform a review of the Management's Report, the objective of which is to obtain a lower level of assurance than an audit, in all material respects. A review includes obtaining an understanding of a company's IACS and making inquiries regarding the Management's Report and, when deemed necessary, performing a limited inspection of underlying documents and other limited procedures.

The Company's IACS represents internal accounting policies and a system to manage and operate such policies to provide reasonable assurance regarding the reliability of separate financial statements prepared, in accordance with Korean International Financial Reporting Standards, for the purpose of preparing and disclosing reliable accounting information. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the separate financial statements. Also, projections of any evaluation of effectiveness of IACS 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 causes us to believe that the Management's Report referred to above is not fairly stated, in all material respects, in accordance with the IACS Framework established by the Korea Listed Companies Association.

Our review is based on the Company's IACS as of December 31, 2012, and we did not review its IACS subsequent to December 31, 2012. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in the Republic of Korea and may not be appropriate for other purposes or for other users.

Deloitte Anjin LLC

March 14, 2013

Report on the Assessment of
Internal Accounting Control System ("IACS")

English Translation of a Report Originally Issued in Korean

To the Board of Directors and Audit Commitee of
Hankook Tire Worldwide Co., Ltd.

I, as the Internal Accounting Control Officer ("IACO") of Hankook Tire Worldwide Co., Ltd. ("the Company"), assessed the status of the design and operation of the Company's IACS for the year ended December 31, 2012

The Company's management including IACO is responsible for designing and operating IACS. I, as the IACO, assessed whether the IACS has been appropriately designed and is effectively operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of preparing and disclosing reliable financial statements. I, as the IACO, applied the IACS Framework established by the Korea Listed Companies Association for the assessment of design and operation of the IACS.

Based on the assessment of the IACS, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2012, in all material respects, in accordance with the IACS Framework.

February 26, 2013

Park Jongho

Park, Jong Ho
Internal Accounting Control Officer

Cho

Cho, Hyun Sik
Chief Executive Officer