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

FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
AND INDEPENDENT AUDITORS' REPORT

Audit.Tax.Consulting.Financial Advisory

Deloitte.

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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"). The financial statements consist of the statement of financial position as of December 31, 2013 and 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, 2013 and 2012. 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 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, 2013 and 2012, respectively, the results of its operations and its cash flows for the years ended December 31, 2013 and 2012, respectively, in conformity with Korean International Financial Reporting Standards.

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, 2013 AND 2012

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, 2013 AND 2012

	Notes	2013	2012
		(Korean won in thousands)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	29,30	₩ 70,876,555	₩ 85,418,967
Short-term financial assets	30	226,000,000	215,498,911
Financial assets at FVTPL	5,30	3,487,265	6,983,394
AFS financial assets	5,30	2,000,000	-
Trade and other accounts receivable	4,28,30	25,930,083	60,653,457
Other financial assets	6,28,30	99,573,753	153,094,873
Other current assets	7	1,690,574	375,702
TOTAL CURRENT ASSETS		429,558,230	522,025,304
NON-CURRENT ASSETS:			
AFS financial assets	5,30	18,239,682	289,960,804
Investments in associates	8	1,777,832,408	97,411,008
Property, plant and equipment	9,31	31,180,296	31,466,296
Investment property	10	27,874,542	27,745,708
Intangible assets	11	5,691,820	5,052,091
Defined benefit assets	14	2,462,227	-
Other financial assets	6,28,30	59,678,838	-
Other non-current assets	7,31	650,018	650,018
TOTAL NON-CURRENT ASSETS		1,923,609,831	452,285,925
TOTAL ASSETS		₩ 2,353,168,061	₩ 974,311,229

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2013 AND 2012

	Notes	2013	2012
		(Korean won in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade and other accounts payable	12,28,30	₩ 4,663,009	₩ 12,519,124
Current tax liabilities		4,574,988	71,000,157
Other current liabilities	13	989,132	900,889
TOTAL CURRENT LIABILITIES		10,227,129	84,420,170
NON-CURRENT LIABILITIES:			
Defined benefit liabilities	14	-	2,112,775
Other provisions	15	136,369	122,747
Other financial liabilities	16,28,30	8,799,357	8,670,872
Deferred tax liabilities	26	62,674,031	53,732,197
TOTAL NON-CURRENT LIABILITIES		71,609,757	64,638,589
TOTAL LIABILITIES		81,836,887	149,058,759
SHAREHOLDERS' EQUITY:			
Capital stock	17	46,510,087	14,157,430
Other paid-in capital	17,18	1,286,905,972	(5,243,661,626)
Retained earnings	19	963,156,352	6,049,084,193
Other equity	20	(25,241,236)	5,672,473
TOTAL SHAREHOLDERS' EQUITY		2,271,331,174	825,252,470
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		₩ 2,353,168,061	₩ 974,311,229

(Concluded)

See accompanying notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Notes	2013	2012
		(Korean won in thousands, except for income per share data)	
CONTINUING OPERATION			
OPERATING REVENUE	21,28	₩ 153,514,281	₩ 39,331,049
OPERATING EXPENSES	22,28	(33,938,185)	(25,701,899)
OPERATING INCOME		119,576,096	13,629,150
Financial income	23	70,415,336	21,358,400
Financial expense	24	(15,518,178)	(28,565,446)
Other non-operating income	25,28	4,897,067	1,405,999
Other non-operating expense	25,28	(41,304)	(91,748)
INCOME BEFORE INCOME TAX EXPENSE		179,329,017	7,736,356
INCOME TAX EXPENSE	26	(19,177,196)	(2,385,621)
NET INCOME FROM CONTINUING OPERATIONS		₩ 160,151,821	₩ 5,350,735
DISCONTINUED OPERATION			
NET INCOME FROM DISCONTINUED OPERATIONS		₩ -	₩ 3,271,807,734
NET INCOME		₩ 160,151,821	₩ 3,277,158,469
OTHER COMPREHENSIVE INCOME (LOSS)		₩ (24,100,734)	₩ (182,406,398)
Items not to be reclassified subsequently to profit or loss		₩ 6,812,975	₩ (4,317,778)
Remeasurements of retirement benefit plan	19	5,954,284	(4,700,590)
Retained earnings changes due to investments in associates accounted for using the equity method		2,427,709	(865,148)
Tax effects on other comprehensive income	19	(1,569,017)	1,247,961
		₩ 6,812,975	₩ (4,317,778)
Items to be reclassified subsequently to profit or loss		₩ (30,913,709)	₩ (178,088,620)
Gains on valuation of AFS financial assets	20	(10,394,941)	7,859,813
Equity changes accounted for using the equity method	20	(24,271,066)	1,105,326
Exchange differences on translating foreign operations	20	-	(183,928,455)
Tax effects on other comprehensive income	20	3,752,297	(3,125,304)
		₩ (30,913,709)	₩ (178,088,620)
COMPREHENSIVE INCOME		₩ 136,051,087	₩ 3,094,752,071

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Notes	2013	2012
		(Korean won in thousands, except for income per share data)	
NET INCOME ATTRIBUTABLE TO:			
Owners of the Company			
Net income from continuing operations		₩ 160,151,821	₩ 5,350,735
Net income from discontinued operations		-	3,272,292,562
		160,151,821	3,277,643,297
Non-controlling interests			
Net income from continuing operations		-	-
Net income from discontinued operations		-	(484,828)
		-	(483,828)
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		136,051,087	3,095,297,849
Non-controlling interests		-	(545,778)
		136,051,087	3,094,752,071
NET INCOME PER SHARE (Korean won)			
Basic and diluted income per share of continuing operation	27	₩ 2,727	₩ 50
Basic and diluted income per share of discontinued operation	27	₩ -	₩ 30,837

(Concluded)

See accompanying notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Korean won in thousands)

		Other paid-in capital								
	Capital stock	Additional paid-in capital	Treasury stocks	Losses on capital reduction	Other paid-in capital	Retained earnings	Other equity	Owners of the Company	Non-controlling interests	Total
As of January 1, 2012	₩ 76,094,965	₩115,653,338	₩ (57,318,202)	₩ -	₩ 53,924,34	₩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	46,654,183	(5,606,451,799)	(3,461,774)	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	₩ (11,092,609)	₩(5,606,451,799)	₩ 50,462,574	₩6,049,084,193	₩ 5,672,473	₩ 825,252,470	₩ -	₩ 825,252,470

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Korean won in thousands)

		Other paid-in capital								
	Capital stock	Additional paid-in capital	Treasury stocks	Losses on capital reduction	Other paid-in capital	Retained earnings	Other equity	Owners of the Company	Non-controlling interests	Total
As of January 1, 2013	₩ 14,157,430	₩323,420,209	₩ (11,092,609)	₩(5,606,451,799)	₩ 50,462,574	₩6,049,084,193	₩ 5,672,473	₩ 825,252,470-	₩ -	₩ 825,252,470
Cash dividends	-	-	-	-	-	(10,795,910)	-	(10,795,910)	-	(10,795,910)
Losses on capital reduction covering	-	-	-	5,606,451,799	-	(5,606,451,799)	-	-	-	-
Provision of Capital reserve	-	(309,262,779)	-	-	(55,092,293)	364,355,071	-	-	-	-
Paid-in capital increase	32,352,657	1,288,470,870	-	-	-	-	-	1,320,823,526	-	1,320,823,526
Comprehensive income	-	-	-	-	-	166,964,796	(30,913,709)	136,051,087	-	136,051,087
Net income	-	-	-	-	-	160,151,821	-	160,151,821	-	160,151,821
Gains on valuation of AFS financial assets, net	-	-	-	-	-	-	(7,879,365)	(7,879,365)	-	(7,879,365)
Equity changes accounted for using the equity method	-	-	-	-	-	-	(23,034,344)	(23,034,344)	-	(23,034,344)
Actuarial losses on defined benefit plans	-	-	-	-	-	4,513,347	-	4,513,347	-	4,513,347
Retained earnings changes due to investments in associates accounted for using the equity method	-	-	-	-	-	2,299,628	-	2,299,628	-	2,299,628
As of December 31, 2013	₩ 46,510,087	₩1,302,628,300	₩ (11,092,609)	₩ -	₩ (4,629,719)	₩ 963,156,352	₩ (25,241,236)	₩ 2,271,331,174	₩ -	₩2,271,331,174

(Concluded)

See accompanying notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
	(Korean won in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	₩ 160,151,821	₩ 3,277,158,469
Adjustment		
Gain on disposal of discontinued operations	-	(2,739,647,744)
Income tax expense	19,177,196	83,757,200
Interest income	(14,960,187)	(16,250,490)
Interest expense	-	55,995,720
Gain on foreign currency translation	(1,764)	(106,415,045)
Loss on foreign currency translation	6,375,319	76,492,516
Gain on investments in associates	(84,899,428)	(16,847,026)
Loss on disposal of AFS securities	-	2,301
Gain on disposal of AFS securities	(38,788,199)	(6,515)
Gain on foreign exchange forward transaction	-	(915,348)
Gain on valuation of foreign exchange forward contracts	(9,263,151)	(2,381,793)
Loss on valuation of foreign exchange forward contracts	5,841,153	-
Loss on disposal of inventories	-	882,780
Loss on valuation of inventories	-	899,753
Reversal of loss on valuation of inventories	-	(1,365,194)
Loss on disposal of trade receivable	-	1,846,642
Provision for doubtful accounts	(397)	2,935,499
Gain on disposal of property, plant and equipment	(23)	(634,356)
Loss on disposal of property, plant and equipment	-	10,353,280
Loss on disposal of intangible assets	-	76,416
Depreciation of property, plant and equipment	1,132,249	243,277,463
Depreciation of investment in properties	1,172,020	790,792
Amortization of intangible assets	249,290	3,980,278
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	2,544,907	-
Dividend incomes	(2,532,282)	(397,692)
Transfer to other provisions	-	224,874
Impairment loss on AFS securities	-	10,000,000
Sales damage expense	-	9,538,151
Employee benefits	23,603	1,592,901
Provision for severance benefits	1,382,708	25,303,610
	(112,546,988)	(2,358,311,694)
Changes in operating assets and liabilities:		
Increase in trade receivables	32,373,073	(290,114,311)
Decrease (increase) in other accounts receivable	669,867	30,390,944
Increase in accrued income	1,680,831	(56,328,707)
Decrease (increase) in advance payments	(2,104,133)	15,077,165
Increase in prepaid expenses	2,218	(16,999,612)

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
	(Korean won in thousands)	
Increase in prepaid value added tax		-
Decrease in deposits of acceptances and guarantees	-	753,778
Increase in inventories	-	(1,409,505)
Increase in leasehold deposits provided	-	(1,251,022)
Increase in other current assets	-	(4,664,058)
Decrease (increase) in other non-current assets	-	3,548,471
Increase (decrease) in trade payables	-	(25,817,750)
Increase (decrease) in accounts payable	(8,409,135)	(53,178,000)
Increase in accrued expenses	551,212	159,941,520
Increase (decrease) in advances from customers	-	(44,397,324)
Increase in deposits	88,244	19,914,363
Decrease in value added tax withheld	-	(38,137,540)
Increase (decrease) in unearned revenue	-	(1,856,012)
Increase in other current liabilities	-	2,450,857
Payment of severance indemnities	(423,063)	(7,609,201)
Decrease in plan assets	419,046	(4,137,450)
Increase (decrease) in rental deposits	128,485	1,587,848
Decrease in foreign exchange forward liabilities	-	(225,404)
Compensation for sales damages	-	(17,619,370)
Payment of long-term debts for employees	(9,980)	(1,024,745)
	24,966,664	(331,105,064)
Interest revenue received	14,960,187	54,555,197
Dividend received	4,526,362	2,389,763
Interest expense paid	-	(57,445,128)
Income tax paid	(74,476,662)	(98,742,382)
Net cash provided by operating activities:	₩ 17,581,383	₩ 488,499,160
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) of short-term financial assets	(9,549,866)	(169,110,981)
Increase of short-term loans	(98,352,000)	-
Decrease of short-term loans	150,713,080	-
Increase of long-term loans	(58,008,640)	-
Acquisition of AFS securities	-	(21,973,593)
Disposal of AFS securities	127,133	154,828
Disposal of financial asset at FVTPL, net	-	585,604
Acquisition of property, plant and equipment	(2,147,103)	(621,003,184)
Disposal of property, plant and equipment	24	22,276,331
Acquisition of intangible assets	(650,606)	(744,611)
Disposal of intangible assets	-	554,492
Acquisition of other financial assets	-	(263,053)
Disposal of other financial assets	-	6,088,831
Settlement of derivatives	(3,459,360)	(4,648,100)
Net cash used in investing activities:	₩ (21,327,339)	₩ (788,083,436)

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD..

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
	(Korean won in thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	-	266,554,352
Proceeds from long-term borrowings	-	511,789,219
Issuance of debentures	-	149,335,400
Repayment of short-term borrowings	-	(221,234,215)
Repayment of current portions of long-term financial liabilities	-	(316,115,501)
Acquisition of treasury stock	-	(428,591)
Payment of dividends	(10,794,102)	(58,075,972)
Decrease due to spin-off	-	(569,258,142)
Net cash provided by (used in) financing activities:	₩ (10,794,102)	₩ (237,433,450)
NET INCREASE (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,540,057)	(537,017,726)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	85,418,967	635,195,528
CHANGES IN CASH AND CASH EQUIVALENTS DUE TO FOREIGN CURRENCY TRANSLATION	(2,355)	(12,758,835)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	₩ 70,876,555	₩ 85,418,967

(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, 2013 AND 2012

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 2013. 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, 2013 and 2012, are as follows:

	December 31, 2013		December 31, 2012	
	Number of shares owned	Percentage of ownership (%)	Number of shares owned	Percentage of ownership (%)
Yang Rai Cho	21,942,693	23.59	4,527,608	15.99
Hyun Bum Cho	17,959,178	19.31	2,009,009	7.10
Hyun Shick Cho	17,974,870	19.32	1,640,544	5.79
Others (*)	35,143,432	37.78	20,137,699	71.12
	93,020,173	100.00	28,314,860	100.00

(*) Including 1,325,086 shares as of December 31, 2013 and 2012 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 March 6, 2014.

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 before the spin-off have been transferred to the new company, the Company has no subsidiaries to consolidate on December 31, 2013 and 2012; so that its financial statements for the current and comparative period (after the spin-off) are financial statements with the investment in associates accounted for using the equity method.

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 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.

Amendments to 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. Other than this presentation change, the application of the amendments to K-IFRS 1001 does not result in any impact on the Group's financial position and financial performance. The amendments have been applied retrospectively for the comparative period, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to K-IFRS 1019 – *Employee Benefits*

The amendments to K-IFRS 1019 require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of K-IFRS 1019 and the accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income (the option to recognize actuarial gains and losses in profit or loss has also been removed). Furthermore, the interest cost and expected return on plan assets used in the previous version of K-IFRS 1019 are replaced with a 'net interest' amount under K-IFRS 1019 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to K-IFRS 1019 also require the recognition of past service cost as an expense at the earlier date of (a) when the plan amendment or curtailment occurs and (b) when the Company recognizes related restructuring costs or termination benefits.

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 and require entities to disclose information about rights of offset and related arrangements (such as collateral agreements) for financial instruments under an enforceable master netting agreement or similar arrangement, irrespective of whether they would meet the offsetting criteria under K-IFRS 1032. As the Company has neither any offsetting financial instruments under K-IFRS 1032 nor any rights of offset or related arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the separate financial statements.

K-IFRS 1110 *Consolidated Financial Statements*

K-IFRS 1110 replaces the parts of K-IFRS 1027 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and K-IFRS 2012 *Consolidation – Special Purpose Entities*, and establishes a single basis for consolidation for all entities, including structured entities (the term from K-IFRS 2012, 'special purpose entities', is no longer used). Under K-IFRS 1110, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The application of the enactments has no material impact on the Company's separate financial statements.

K-IFRS 1111 *Joint Arrangement*

K-IFRS 1111 deals with how a joint arrangement of which two or more parties have joint control should be classified either as a joint operation or a joint venture. The classification of joint arrangements under K-IFRS 1111 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. If the Company is a joint operator, the Company is to recognize assets, liabilities, revenues and expenses in relation to its interest in a joint operation and if the Company is a joint ventures, the Company is to account for that investment using the equity method. The application of the enactments has not had any material impact on the Company's financial statements.

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, associates, or unconsolidated structured entities. This standard requires an entity to disclose the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The application of the enactments has no material impact on the Company's separate financial statements.

K-IFRS 1113 *Fair Value Measurement*

K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosure 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 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured by taking into account the characteristics of the asset or liability that market participants would take when pricing the asset or liability at the measurement date. A fair value measurement under K-IFRS 1113 requires an entity to determine the particular asset or liability that is subject of the measurement, the principal (or most advantageous) market for the asset or liability, and the valuation technique(s) appropriate for the measurement. In addition, K-IFRS 1113 requires extensive disclosures about fair value measurements. The application of the enactments has no material impact on the Company's separate financial statements.

There are some other amendments made to K-IFRSs as part of the Annual Improvements to K-IFRSs 2009 – 2011, such as the tax effect of distribution to holders of equity instruments (the amendments to K-IFRS 1032), which has not resulted in material effects on the Company's separate financial statements.

2) New and revised IFRSs in issue but not yet effective

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

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.

Amendments to K-IFRS 1039 *Financial Instruments: Recognition and Measurement*

The amendments to K-IFRS 1039 allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty or entity acting in a similar capacity and certain conditions are met. The amendment to K-IFRS 1039 is effective for annual periods beginning on or after January 1, 2014.

Amendments to K-IFRS 1110, K-IFRS 1112 and K-IFRS 1027 *Investment Entities*

The amendments introduce an exception to the principle under K-IFRS 1110 that all subsidiaries shall be consolidated and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. In addition, consequential amendments have been made to K-IFRS 1112 and K-IFRS 1027 to introduce new disclosure requirements for investment entities. The investment entities amendments are effective for annual periods beginning on or after January 1, 2014.

(2) 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 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.

At the acquisition date, 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 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.

(3) Investments in associates and joint ventures

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures 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 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture 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 or joint venture. When the Company's share of losses of an associate or a joint venture exceeds the Company's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate or joint venture), 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 or joint venture.

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 or a joint venture 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.

Upon disposal of an associate or a joint venture that results in the Company losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis we would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Company reduces its ownership interest in an associate or a joint venture but the Company continues to use the equity method, the Company reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Company applies K-IFRS 5 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognize any impairment loss with respect to the Company’s investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 *Impairment of Assets* 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.

The Company continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Company, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Company.

(4) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Company as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Company is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Company's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Company does not recognize its share of the gains and losses until it resells those assets to a third party.

(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 group) 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.

When the Company is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Company discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Company discontinues the use of the equity method at the time of disposal when the disposal results in the Company losing significant influence over the associate or joint venture.

After the disposal takes place, the Company accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement unless the retained interest continues to be an associate or a joint venture, in which case the Company uses the equity method.

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. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Company recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below.

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 when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

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(See Note 2.(21) 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.

(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 and termination benefits

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. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income), and remeasurement.

The Company presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the statement of financial position represents the actual deficit or surplus in the Company’s defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

(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 consolidated 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.

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 apply 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.

Deferred tax assets and liabilities are offset if, and only if the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

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 reported at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as a separate 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.

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.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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.

(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.

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

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. Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, only if, the development project is designed to produce new or substantially improved products, and the Company can demonstrate the technical and economical feasibility and measure reliably the resources 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). When 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. 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 and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(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.

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

(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

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: ‘financial assets at fair value through profit or loss (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

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income (as [investments revaluation reserve]). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income 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 financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing 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.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

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.

For financial assets that are carried at 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 current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. 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.

For financial assets measured at amortized cost, 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. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial assets other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset, or it retains a residual interest and such an retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(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 and the definitions of financial liability and an equity instrument.

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.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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 arrangements and the definitions of a financial liability and equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

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 conversion option classified as equity 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. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

4) Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the issue of financial liabilities are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to acquisition of financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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 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 including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts 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

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

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 Provisions, Contingent Liabilities and Contingent Assets; and
• the amount initially recognized less, cumulative amortization recognized in accordance with the K-IFRS 1018 Revenue

8) Derecognition of financial liabilities

The Company derecognize financial liabilities when the Company's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(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, interest rate swaps and cross currency swaps.

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; 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) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these separate financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102 Share-based payment, leasing transactions that are within the scope of K-IFRS 1017 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in K-IFRS 1002 Inventories or value in use in K-IFRS 1036 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

• Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
• Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3. CRITICAL ACCOUNTING JUDGEMENTS 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.

1) Valuation of Financial Instruments

As described in Note 30, the Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. Note 30 provides detailed information about key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

2) Impairment of non-financial assets

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. 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. Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

3) Defined Benefit Plan

The Company's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Company's best estimates of the variables in determining the cost of providing post-retirement benefits such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of post-retirement benefit plan.

4. TRADE AND OTHER RECEIVABLES:

(1) Details of trade and other receivables as of December 31, 2013, and 2012, are as follows (Korean won in thousands):

	2013		
	Gross amount	Less: Allowance for debt	Net amount
Trade receivables	23,728,846	₩ -	23,728,846
Other accounts receivable	119,534	-	119,534
Accrued income	2,081,703	-	2,081,703
Total	25,930,083	₩ -	25,930,083

	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

(2) Changes in allowance for trade and other receivables for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		
	Trade receivables	Other accounts receivable	Total
Beginning balance	₩ 10	₩ 387	₩ 397
Bad debt expense	(10)	(387)	(397)
Write-offs	-	-	-
Recovery	-	-	-
Ending balance	₩ -	₩ -	₩ -

	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
Reversal of allowance for bad debts	(162,835)	-	-	(162,835)
Foreign currency translation	(18,565,020)	(799,902)	(64,409)	(19,429,331)
Ending balance	₩ 10	₩ 387	₩ -	₩ 397

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, 2013, ₩23,729,148 thousand of trade receivables and other accounts receivable for Hankook Tire Co., Ltd. which account for more than 90% of total balance by customers is included in ₩25,930,083 thousands of total trade receivables and other accounts receivable.

5. FINANCIAL ASSETS AT FVTPL AND AFS SECURITIES:

(1) Details of financial assets at FVTPL and AFS securities as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Financial asset at FVTPL	₩ 3,487,265	₩ 6,983,394
AFS securities		
Equity instruments	665,087	269,023,770
Debt instruments	19,574,595	20,937,034
Subtotal	20,239,682	289,960,804
Total	₩ 23,726,947	₩ 296,944,198

(2) Changes in AFS financial assets for the years ended December 31, 2013, are as follows (Korean won in thousands):

	Beginning balance	Evaluation	Disposal	Transfer	Ending balance
Hankook Tire Co., Ltd.	₩ 267,789,687	₩ 30,197,565	₩ -	₩ (297,987,252)	₩ -
LB Semicon Inc.	878,780	(441,774)	(12,950)	-	424,056
Others	355,303	-	(114,272)	-	241,031
Total	₩ 269,023,770	₩ 29,755,791	₩ (127,222)	₩ (297,987,252)	₩ 665,087

6. OTHER FINANCIAL ASSETS:

Details of other financial assets as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		2012	
	Current	Non-current	Current	Non-current
Foreign exchange forward contracts	₩ 4,596,753	₩ 4,666,398	₩ 2,381,793	₩ -
Loans	94,977,000	55,012,440	150,713,080	-
Total	₩ 99,573,753	₩ 59,678,838	₩ 153,094,873	₩ -

7. OTHER ASSETS:

Details of other assets as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		2012	
	Current	Non-current	Current	Non-current
Advance payments	₩ 1,676,287	₩ -	₩ 359,197	₩ -
Prepaid expenses	14,287	-	16,505	-
Others	-	650,018	-	650,019
Total	₩ 1,690,574	₩ 650,018	₩ 375,702	₩ 650,019

8. INVESTMENTS IN ASSOCIATES:

(1) The status of the investment in associates as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

Associate	Location	Main Business
Hankook Tire Co., Ltd.	Republic of Korea	Manufacturing, reproduction processing and sales of the automobile tires, tubes and accessories.
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, 2013 and 2012, are as follows (Korean won in thousands):

	2013				
Associate	Reporting Month	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying value
Hankook Tire Co.,Ltd.	December	30,962,895	25.00	₩1,619,359,409	₩ 1,664,413,574
Atlas BX Co., Ltd.	December	2,848,685	31.13	12,229,979	109,823,244
EmFrontier, Inc.	December	857,142	29.99	428,571	3,595,590
Total				₩1,632,017,959	₩ 1,777,832,408

	2012				
Associate	Reporting month	Number of shares	Percentage of ownership (%)	Acquisition cost	Carrying value
Atlas BX Co., Ltd.	December	2,848,685	31.13	₩ 12,229,979	₩ 94,018,836
EmFrontier, Inc.	December	857,142	29.99	428,571	3,392,171
Total				₩ 12,658,550	₩ 97,411,007

(3) Details of evaluation using equity method on the Company's investment in associates for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

Associate	2013 Beginning balance	Acquisition (Disposal)	Gain on valuation of equity method securities	Other changes	Ending balance
Hankook Tire Co.,Ltd.	-	1,321,372,157	68,036,376	275,005,041	1,664,413,574
Atlas BX Co., Ltd.	94,018,836	-	16,811,667	(1,007,259)	109,823,244
EmFrontier, Inc.	3,392,171	-	51,385	152,034	3,595,590
Total	97,411,007	1,321,372,157	84,899,428	274,149,816	1,777,832,408

Associate	2012 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

(4) As of December 31, 2013 and 2012, fair value of marketable investment in associates is as follows (Korean won in thousands):

Associate	2013	2012
Hankook Tire Co.,Ltd.	1,879,447,727	-
Atlas BX Co., Ltd.	114,517,137	94,291,474

(5) As of December 31, 2013 and 2012, summarized financial information of associates is as follows (Korean won in thousands):

2013	Hankook Tire Co.,Ltd.	Atlas BX Co., Ltd.	EmFrontier, Inc.
Current Assets	3,952,244,215	361,410,627	38,371,049
Non-Current Assets	6,087,572,997	78,994,475	1,612,815
Total Assets	10,039,817,212	440,405,102	39,983,864
Current Liabilities	2,942,257,596	81,641,453	26,366,137
Non-Current Liabilities	1,482,560,548	6,010,472	1,632,419
Total Liabilities	4,424,818,143	87,651,925	27,998,556
Owners of the Company	5,608,400,197	352,753,178	11,985,308
Non-controlling interests	6,598,872	-	-
Total Shareholders' Equity	5,614,999,069	352,753,178	11,985,308
Sales	7,069,237,653	487,281,270	78,131,370
Operating Income	942,253,317	62,442,273	785,727
Net income	569,182,601	53,999,216	171,283
Comprehensive Income	586,341,976	57,168,890	678,063

(*1) Above summarized financial information is consolidated financial statements reflected the fair value adjustment acquiring shares and intangible assets appropriation (Customer value and value of technique).

2012	Atlas BX Co., Ltd.	EmFrontier, Inc.
Current Assets	307,503,926	41,831,046
Non-Current Assets	73,650,624	1,822,608
Total Assets	381,154,550	43,653,654
Current Liabilities	72,812,715	30,347,367
Non-Current Liabilities	6,352,547	1,999,042
Total Liabilities	79,165,262	32,346,409
Owners of the Company	301,989,288	11,307,245
Non-controlling interests	-	-
Total Shareholders' Equity	301,989,288	11,307,245
Sales	475,194,960	73,386,741
Operating Income	72,182,821	1,014,013
Net income	54,094,549	1,174,078

Comprehensive Income	51,755,244	1,179,779

(6) As of December 31, 2013 and 2012, adjustment from net assets to book value of related parties is as follows (Korean won in thousands):

	2013		
	Hankook Tire Co.,Ltd.	Atlas BX Co., Ltd.	EmFrontier, Inc.
Net Assets of Associates	5,608,400,197	352,753,178	11,985,308
Share ratio	25.00%	31.13%	29.99%
Net Assets	1,402,100,049	109,823,244	3,595,590
Goodwill and others	262,313,525	-	-
Final Book Value	1,664,413,574	109,823,244	3,595,590

	2012	
	Atlas BX Co., Ltd.	EmFrontier, Inc.
Net Assets of Associates	301,989,288	11,307,245
Share ratio	31.13%	29.99%
Net Assets	94,018,836	3,392,171
Goodwill and others	-	-
Final Book Value	94,018,836	3,392,171

9. PROPERTY, PLANT AND EQUIPMENT:

(1) Details of the carrying value of property, plant and equipment as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		
	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩ 10,548,829	₩ -	₩ 10,548,829
Buildings	28,604,978	(9,412,486)	19,192,492
Structures	404,615	(147,906)	256,709
Vehicles	683,026	(511,845)	171,181
Tools, furniture and fixtures	463,610	(452,918)	10,692
Construction in progress	1,000,393	-	1,000,393
Total	₩ 41,705,451	₩ (10,525,155)	₩ 31,180,296

	December 31, 2012		
	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩ 10,509,654	₩ -	₩ 10,509,654
Buildings	27,919,404	(8,734,224)	19,185,180
Structures	404,615	(137,448)	267,167
Vehicles	683,026	(357,996)	325,030
Tools, furniture and fixtures	464,600	(464,578)	22
Construction in progress	1,179,243	-	1,179,243
Total	₩ 41,160,542	₩ (9,694,246)	₩ 31,466,296

(2) Changes in property, plant and equipment for the four months ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	10,509,654	₩ -	₩ -	₩ -	₩ 39,175	₩ 10,548,829
Buildings	19,185,180	-	-	(966,733)	974,045	19,192,492
Structures	267,167	-	-	(10,458)	-	256,709
Vehicles	325,030	-	-	(153,848)	-	171,182
Tools furniture and fixtures	22	11,880	(1)	(1,210)	-	10,691
Construction in progress	1,179,243	2,135,223	-	-	(2,314,073)	1,000,393
Total	₩ 31,466,296	₩ 2,147,103	₩ (1)	₩ (1,132,249)	₩ (1,300,853)	₩ 31,180,296

	2012							
	Beginning balance	The change in the scope of consolidation	Acquisition	Disposal	Depreciation	Others	Foreign currency translation	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

(3) Pledged assets as collateral

As of December 31, 2013, the Company has subscribed to property and comprehensive insurance for its buildings (Refer to Note 31).

10. INVESTMENT PROPERTY:

(1) Details of the carrying value of investment property as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		
	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩ 15,662,650	₩ -	₩ 15,662,650
Buildings	23,403,620	(11,191,728)	12,211,892
Total	₩ 39,066,270	₩ (11,191,728)	₩ 27,874,542

	December 31, 2012		
	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩ 15,037,287	₩ -	₩ 15,037,287
Buildings	22,439,658	(9,731,237)	12,708,421
Total	₩ 37,476,945	₩ (9,731,237)	₩ 27,745,708

(2) Changes in investment property for the four months ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		
	Land	Buildings	Total
Beginning balance	₩ 15,037,287	₩ 12,708,421	₩ 27,745,708
Acquisition	-	-	-
Disposal	-	-	-
Depreciation	-	(1,172,020)	(1,172,020)
Others	625,363	675,490	1,300,853
Ending balance	₩ 15,662,650	₩ 12,211,892	₩ 27,874,542

	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

(3) Details of income and expenditure for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Rental income	₩ 4,224,811	₩ 2,707,064
Training center income	50,902	43,388
Expenditure for operating activities	3,503,325	1,282,862

(4) As of December 31, 2013, the fair value is ₩132,234,512 thousand.

11. INTANGIBLE ASSETS:

(1) Details of carrying value of intangible assets as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

December 31, 2013

	Acquisition cost	Accumulated depreciation	Carrying value
Industrial rights	₩ 1,671,683	₩ (960,225)	₩ 711,458
Other intangible assets	4,980,362	-	4,980,362
Total	₩ 6,652,045	₩ (960,225)	₩ 5,691,820

	December 31, 2012		
	Acquisition cost	Accumulated depreciation	Carrying value
Industrial rights	₩ 706,168	₩ (276,739)	₩ 429,429
Other intangible assets	4,622,662	-	4,622,662
Total	₩ 5,328,830	₩ (276,739)	₩ 5,052,091

(2) Changes in intangible assets for the four months ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		
	Industrial rights	Other intangible assets	Total
Beginning balance	₩ 429,429	₩ 4,622,662	₩ 5,052,091
Acquisition	292,906	357,700	650,606
Disposal	-	-	-
Depreciation	(249,290)	-	(249,290)
Others	238,413	-	238,413
Ending balance	₩ 711,458	₩ 4,980,362	₩ 5,691,820

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

12. TRADE AND OTHER ACCOUNTS PAYABLE:

Details of trade and other accounts payable as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Trade payables	₩ -	₩ -
Other accounts payable	2,477,158	10,886,294
Accrued expenses	2,131,410	1,580,197
Dividends payable	54,441	52,633
Total	₩ 4,663,009	₩ 12,519,124

13. OTHER LIABILITIES:

Details of other liabilities as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Withholdings	₩ 989,132	₩ 900,889

14. RETIREMENT BENEFIT PLAN:

As of December 31, 2013, 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) The significant actuarial assumptions used by the Company as of December 31, 2013 and 2012, are as follows:

Description	December 31, 2013	December 31, 2012
Discount rate	4.59%	4.10%
Rate of expected future salary increase	8.17%	8.07%

(2) As of December 31, 2013 and 2012, amounts recognized in the statements of financial position related to retirement benefit obligation are as follows (Korean won in thousands):

	2013	2012
Present value of defined benefit obligation	₩ 7,799,371	₩ 12,472,470
Fair value of plan assets	(10,261,598)	(10,359,695)
Retirement benefit Liabilities(Assets)	₩ (2,462,227)	₩ 2,112,775

(3) Changes in net defined benefit liabilities for the year ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		
Description	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
Beginning of the year	₩ 12,472,470	₩ (10,359,695)	₩ 2,112,775
Current service cost	1,451,186	-	1,451,186
Interest expenses (income)	323,365	(391,843)	(68,478)
	14,247,021	(10,751,538)	3,495,483
Remeasurements:			
Return on plan assets	-	70,302	70,302
Actuarial gains arising from changes in demographic assumptions	(88,153)	-	(88,153)
Actuarial gains arising from changes in financial assumptions	(307,033)	-	(307,033)
Actuarial gains arising from experience adjustments and others	(5,629,399)	-	(5,629,399)
	(6,024,585)	70,302	(5,954,283)
Benefits paid	(486,270)	486,863	593
Transfers in (out) and Others	63,205	(67,225)	(4,020)
End of the year	₩ 7,799,371	₩ (10,261,598)	₩ (2,462,227)

	2012		
Description	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
Beginning of the year	₩ 139,551,911	₩ (128,758,500)	₩ 10,793,411
Current service cost	24,279,448	-	24,279,448
Interest expenses (income)	4,824,019	(3,799,857)	1,024,162
	168,655,378	(132,558,357)	36,097,021

Remeasurements:			
Return on plan assets	-	(183,280)	(183,280)
Actuarial gains arising from changes in demographic assumptions	-	-	-
Actuarial gains arising from changes in financial assumptions	720,423	-	720,423
Actuarial gains arising from experience adjustments and others	4,819,246	-	4,819,246
	5,539,669	(183,280)	5,356,389
Contributions	-	(10,300,000)	(10,300,000)
Benefits paid	(7,609,201)	6,162,548	(1,446,653)
Decrease by spin-off	(154,113,376)	126,519,394	(27,593,982)
End of the year	₩ 12,472,470	₩ (10,359,695)	₩ 2,112,775

The fair value of the plan assets consist of principal and interest guaranteed financial assets such as fixed deposit, for the stable retirement benefit financing.

(4) Income and loss related to defined benefit plan for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Current service cost	₩ 1,451,186	₩ 24,279,448
Interest cost	323,365	4,824,019
Expected return on plan assets	(391,843)	(3,799,857)
Total	₩ 1,382,708	₩ 25,303,610

(5) The sensitivity analyses below have been determined based on reasonably possible changes of the significant assumptions occurring as of December 31, 2013, while holding all other assumptions constant (Korean won in thousands).

	Effect on the net defined benefit liabilities as of December 31, 2013	
Description	Increase by 1%	Decrease by 1%
Discount rate	(633,029)	752,655
Rate of expected future salary increase	748,525	(641,304)

15. PROVISIONS:

(1) Details of provisions as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Long-term debts for employees	₩ 136,369	₩ 122,747

(2) Changes in provisions for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013			
	Beginning balance	Transferred-in	Use	Ending balance
Long-term debts for employees	₩ 122,747	₩ 23,602	₩ (9,980)	₩ 136,369
Total	₩ 122,747	₩ 23,602	₩ (9,980)	₩ 136,369

	2012					
	Beginning balance	Transferred-in	Use	Foreign currency translation	Decrease due to Spin-off	Ending balance
Provision for product liabilities	₩ 9,226,400	₩ -	₩ -	₩ (149,600)	₩ (9,076,800)	₩ -
Provision for product warranties	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
Other provisions	-	224,874	-	-	(224,874)	-
Total	₩ 74,953,461	₩ 11,355,92	₩ (18,644,115)	₩ (582,448)	₩ (66,960,077)	₩ 122,747

16. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Rental deposits	₩ 8,799,357	₩ 8,670,872

17. CAPITAL STOCK:

Details of capital stock as of December 31, 2013 and 2012, are as follows (Korean won in thousands except per share and per value amounts):

	2013	2012
Authorized (shares)	250,000,000	250,000,000
Par value	₩ 500	₩ 500
Outstanding (shares):		
Ordinary share	93,020,173	28,314,860
Capital stock:		
Common stock	₩ 46,510,087	₩ 14,157,430

The company increased capital by issuing common stock issued by Hankook Tire Co., Ltd. for investment in kind (stock payment day : 5th July, 2013) as tender offers for the years ended December 31, 2013.
The number of issued common stocks was 64,705,313 (capital stock 32,352,657 thousand won) accordingly, and the company aquired 25,265,242 common stocks (fair value 1,321,372,157 thousand won) of Hankook Tire Co., Ltd. as price.
The company appropriates 1,288,470,870 thousand won as other paid-in capital (paid-in surplus).
Therefore the company was converted into a holding company by Monopoly regulations and fair trade law.

18. OTHER PAID-IN-CAPITAL:

Details of other paid-in capital as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Paid-in capital in excess of par value	₩ 1,302,628,300	₩ 323,420,209
Other capital surplus	(11,092,609)	50,462,573
Treasury stocks	-	(11,092,609)
Loss from capital reduction	(4,629,719)	(5,606,451,799)
Total	₩ 1,286,905,972	₩ (5,243,661,626)

As of December 31, 2013, 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.

19. RETAINED EARNINGS AND DIVIDENDS:

(1) Details of retained earnings as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Legal reserve:		
Earned surplus reserve(*1)	₩ 8,158,306	₩ 39,260,000
Subtotal	8,158,306	39,260,000
Voluntary reserve:		
Reserve for financial structure improvements	-	19,320,000
Reserve for revaluation (*2)	443,289,239	443,289,239
Reserve for business rationalization	-	46,585,000
Reserve for export losses	-	4,770,000
Reserve for technology development	-	3,970,000
Reserve for overseas market development	-	7,369,667
Dividend equalization reserve	50,000,000	560,500,000
Reserve for officer's retirement benefits	93,918,000	93,918,000
Other voluntary reserve	100,000,000	1,240,600,000
Subtotal	687,207,239	2,420,321,906
Unappropriated retained earnings	267,790,807	3,589,502,287
Total	₩ 963,156,352	₩ 6,049,084,193

(*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) Changes in retained earnings for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		2012	
Beginning of the year	₩	6,049,084,193	₩	2,833,834,645
Net income		160,151,821		3,277,643,297
Dividend payments		(10,795,910)		(58,075,972)
Retained earnings changes due to investments in associates accounted for using the equity method		2,427,709		(865,148)
Defined benefit plan remeasurements		5,954,284		(5,356,388)
Tax effect		(1,569,017)		1,392,237
Decrease by spin-off		-		511,522
Losses on capital reduction covering		(5,606,451,799)		-
Provision of capital reserve		364,355,071		-
End of the year	₩	963,156,352	₩	6,049,084,193

(3) Details of dividend payments as of December 31, 2013 and 2012, are as follows (Korean won except per share):

	2013		2012	
Outstanding shares issued (shares)	₩	28,314,860	₩	152,189,929
Treasury stocks (shares)		1,325,086		7,000,000
Dividend shares (shares)		26,989,774		145,189,929
Dividend per share		400		400
Total dividend	₩	10,795,909,600	₩	58,075,971,600

(4) Changes in retained earnings due to investments in associates accounted for using the equity method for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		2012	
Beginning of the year	₩	140,915	₩	910,071
Changes		2,427,709		(865,148)
Tax effect		(128,081)		95,990
End of the year	₩	2,440,543	₩	140,915

(5) Changes in defined benefit plan remeasurements for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		2012	
Beginning of the year	₩	(45,410,193)	₩	(41,861,573)
Changes		5,954,284		(5,356,388)
Tax effect		(1,440,937)		1,296,246
Decrease by spin-off		-		511,522
End of the year	₩	(40,896,846)	₩	(45,410,193)

(6) Details of separate statements of appropriation of retained earnings for the year ended December 31, 2013 and 2012, are follows (Korean won):

SEPARATE STATEMENT OF APPROPRIATIONS OF RETAINED EARNINGS(*1)

	2013	2012

1. RETAINED EARNINGS BEFORE APPROPRIATIONS (*2):		₩ 102,916,332,645		₩ 3,512,044,632,796
Earned surplus reserved	23,368,356,438		61,318,831,866	
Remeasurements on defined benefit plans	4,513,346,966		(4,060,141,855)	
Net income (*3)	75,034,629,241		3,454,785,942,785	
2. TRANSFER:		-		2,279,651,023,054
Appropriated retained earnings for financial structure improvement	-		19,320,000,000	
Transfer from legal reserves	-		32,181,285,000	
Transfer from capital reserve	-		364,355,071,386	
Business rationalization reserve	-		46,585,000,000	
Reserves for export losses	-		4,770,000,000	
Technology development reserves	-		3,970,000,000	
Reserves for overseas market development	-		7,369,666,668	
Reserve for dividend equalization	-		560,500,000,000	
Unappropriated retained earning	-		1,240,600,000,000	
3. APPROPRIATIONS:		50,308,526,100		5,768,327,299,412
Losses on capital reduction covering	-		5,606,451,798,852	
Reserve for dividend equalization	10,000,000,000		50,000,000,000	
Unappropriated retained earning	10,000,000,000		100,000,000,000	
Legal reserves	2,800,000,000		1,079,590,960	
Cash dividends (Dividends per share (rate) : ₩ 300 (60%) (2013) ₩ 400 (80%) (2012))	27,508,526,100		10,795,909,600	
4. UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR		₩ 52,607,806,545		₩ 23,368,356,438

(*1) Above separate statement of appropriations of retained earnings represents appropriations of retained earnings except subsidiaries' retained earnings before spin-off.

(*2) Retained earnings before appropriations before eliminating subsidiaries' retained earnings before spin-off are as follow.

	2013		2012	
1. RETAINED EARNINGS BEFORE APPROPRIATIONS:		₩ 267,790,806,458		₩ 3,589,502,286,713
Earned surplus reserved	100,826,010,355		61,318,831,866	
Retained earnings of subsidiaries and affiliated company investment	-		254,857,935,337	
Actuarial gains(losses)	4,513,346,966		(4,060,141,855)	
Net income of owners of the company (*3)	160,151,821,002		3,277,643,297,080	
Retained earnings changes due to investments in associates accounted for using the equity method	2,299,628,135		(769,157,645)	
Changes in equity by spin-off	-		511,521,930	

(*3) Difference between net income of owners of the company and net income for appropriations is as follows:

	2013	2012
Net income of owners of the company	₩ 160,151,821,002	₩ 3,277,643,297,080
Net income for subsidiaries investment before spin-off	-	(168,296,583,047)
Gain using equity method	(84,899,428,302)	(16,847,026,347)
Tax expense for affiliated company investment	(217,763,459)	1,882,531,293

Difference of discontinued operations gain of disposal	-	360,888,552,829
ETC.	-	(484,829,023)
Net income for appropriations	₩ 75,034,629,241	₩ 3,454,785,942,785

20. <u>OTHER EQUITY:</u>

(1) Details of other capital components as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Losses on valuation of AFS securities, net	₩ (2,957,580)	₩ 4,921,785
Equity changes due to investment securities accounted for using the equity method	(22,283,656)	750,688
Total	₩ (25,241,236)	₩ 5,672,473

(2) Changes in losses on valuation of AFS securities for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Beginning of the year	₩ 4,921,785	₩ (1,035,868)
Losses on valuation of AFS securities, net	(10,394,941)	7,771,326
Tax effect	2,515,576	(1,903,016)
Decrease by spin-off	-	89,343
End of the year	₩ (2,957,580)	₩ 4,921,785

(3) Changes in gains on translation of foreign operations for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Beginning of the year	₩ -	₩ 184,956,904
Changes	-	(12,585,996)
Tax effect	-	(1,717,378)
Decrease by spin-off	-	(170,653,530)
End of the year	₩ -	₩ -

(4) Changes in Equity changes due to investment securities accounted for using the equity method for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Beginning of the year	₩ 750,689	₩ (220,892)
Changes	(24,271,066)	1,105,326
Tax effect	1,236,721	(133,745)
End of the year	₩ (22,283,656)	₩ 750,689

(5) Changes in Cash flow hedging reserve for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012

Beginning of the year	₩ -	₩ -
Changes	-	(261,976)
Tax effect	-	63,398
Decrease by spin-off	-	198,578
End of the year	₩ -	₩ -

21. OPERATING REVENUE OF CONTINUING OPERATION:

Operating revenue of continuing operation for the year ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Rental sales	₩ 4,224,811	₩ 2,707,064
Training center revenue	50,902	43,388
SSC sales	18,528,573	5,961,406
Trademark right revenue	43,278,285	13,376,481
Dividend payments	2,532,282	395,684
Gains using equity method	84,899,428	16,847,026
Total	₩ 153,514,281	₩ 39,331,049

22. OPERATING EXPENSES OF CONTINUING OPERATION:

Operating expense of continuing operation for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

		2013		2012
Payroll	₩	14,161,093	₩	8,815,186
Provision for severance benefits		1,382,708		1,098,494
Utility expenses		905,008		482,337
Depreciation		2,553,559		1,835,891
Repair expenses		433,058		289,410
Supplies expenses		403,467		77,077
Taxes and dues		1,201,222		718,726
Insurance		142,759		101,820
Employee benefits		1,568,872		1,126,968
Travel expenses		905,628		529,085
Communication expenses		126,775		855,597
Service expenses		448,071		475,383
Fees and charges		5,670,197		2,003,929
Entertainment expenses		438,243		553,020
Publication expenses		98,098		162,800
Training expenses		1,994,923		754,002
Vehicles maintenance expenses		46,745		35,951
Advertisement expenses		775,638		5,190,365
Provision for doubtful accounts		(397)		-
Conference expenses		75,042		36,324
Miscellaneous expenses		607,476		559,534
Total	₩	33,938,185	₩	25,701,899

23. FINANCIAL INCOME:

(1) Details of financial income for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

		2013		2012
Interest revenue				
Short-term financial assets	₩	8,392,674	₩	7,931,835
Trade and other accounts receivable		1,142,166		1,907,115
AFS financial assets		5,425,347		863,799
Subtotal		14,960,187		10,702,749
Gain on disposal and evaluation of dealing securities, net		-		1,400,667
Gain on disposal of AFS securities		38,788,199		6,515
Gain on foreign exchange forward transaction		-		915,348
Gain on valuation of foreign exchange forward contracts		9,263,151		2,381,793
Gain on foreign currency transaction		7,402,035		5,880,323
Gain on foreign currency translation		1,764		71,005
Total	₩	70,415,336	₩	21,358,400

(2) Details of financial income by categories for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

		2013		2012
Loans and receivables	₩	9,534,839	₩	9,838,949

HTM financial assets	-	1,400,667
AFS financial assets	44,213,547	870,314
Designated hedge derivatives	9,263,151	3,297,141
Subtotal	63,011,537	15,407,071
Gain on foreign currency transaction from deposits in foreign currency	7,402,035	5,880,324
Gain on foreign currency translation from deposits in foreign currency	1,764	71,005
Gain on foreign currency translation from short-term loans	-	-
Total	₩ 70,415,336	₩ 21,358,400

24. FINANCIAL EXPENSES:

Details of financial expenses for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Loss on disposal and evaluation of dealing securities, net	₩ 2,544,907	₩ -
Impairment loss on disposal of AFS securities	-	10,000,000
Loss on disposal of AFS securities	-	2,301
Loss on valuation of foreign exchange forward contracts	5,841,153	-
Loss on foreign currency transaction from deposits in foreign currency	756,799	8,145,414
Loss on foreign currency translation from deposits in foreign currency	4,119	2,571,931
Loss on foreign currency translation from loans in foreign currency	3,375,000	7,845,800
	2,996,200	-
Total	₩ 15,518,178	₩ 28,565,446

25. OTHER NON-OPERATING INCOME AND EXPENSE:

(1) Details of other non-operating income for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Gains on disposal of property, plant and equipment	₩ 23	₩ 4,999
Rental income	2,065,639	1,381,755
Miscellaneous income	201,706	19,245
Fees received	2,629,699	-
Total	₩ 4,897,067	₩ 1,405,999

(2) Details of other non-operating expense for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		2012	
Miscellaneous expenses	₩	40,904	₩	15,332
Losses on disposal of intangible assets		-		76,416
Donation		400		-
Total	₩	41,304	₩	91,748

26. INCOME TAX EXPENSE OF CONTINUING OPERATAION

Income tax expense for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		2012	
Income tax of continuing operation	₩	19,177,196	₩	2,385,621
Income tax of discontinued operation				
Current income tax of the Company		-		78,696,330
Income tax of investments in subsidiaries before spin-off		-		41,999,990
Tax effect for adjusting consolidation before spin-off		-		(39,324,741)
Subtotal		-		81,371,579
Total	₩	19,177,196	₩	83,757,200

27. EARNINGS PER SHARE:

(1) The Company's basic and diluted earnings per share from continuing operation for the years ended December 31, 2013 and 2012, are computed as follows (Korean won in thousands):

	2013		2012	
Net income of continuing operation for controlling interest	₩	160,151,821,002	₩	5,350,734,582
Dividends for preferred stock		-		-
Net income available for common shareholders		160,151,821,002		5,350,734,582
Weighted-average number of common shares outstanding		58,721,969 shares		106,115,190 shares
Basic and diluted earnings per share	₩	2,727	₩	50

(2) The Company's basic and diluted earnings per share of discontinued operation for the years ended December 31, 2013 and 2012, are computed as follows (Korean won in thousands):

	2013	2012
Net income of discontinued operation for controlling interest	₩ -	₩ 3,272,292,562,498
Dividends for preferred stock	-	-
Net income available for common shareholders	-	3,272,292,562,498
Weighted-average number of common shares outstanding	-	106,115,190 shares
Basic and diluted earnings per share	₩ -	₩ 30,837

28. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2013, are as follows:

Type	Name of related parties
Individuals	Yang-Rai Cho, Hyun-Shick Cho, Hyun-Bum Cho
Associates	Hankook Tire Co., Ltd., Atlas BX Co., Ltd., EmFrontier Inc.,
Domestic Subsidiaries of Associates	Daehwa Engineering & Machinery Co., Ltd., Hanyang Tire Sales Corp., MKT Holdings Co., Ltd, MK Technology Corp., Frixa Co., Ltd., Atlas BX Motorsports Co., Ltd.,
Overseas Subsidiaries of Associates	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. 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 Budapest Kereskedelmi Kft.,Sp.zo.o. Polish Branch, Hankook Tire Singapore PTE., Ltd., Hankook Tire Malaysia SDN.BHD., Hankook Tire Sweden AB, Beijing Jielun Trading Company Co.,Ltd., Hankook Tire Thailand Co.,Ltd., Hankook Lastikleri A.S., Hankook Tire Polska Sp. z o.o.
Others (*1)	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., Anothen Geumsan Co., Ltd.

(*1) 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.

(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, 2013 and 2012, are as follows (Korean won in thousands):

	2013			
Related-parties	Sales	Purchase	Other revenue	Other cost
Hankook Tire Co., Ltd.,	₩ 67,437,353	₩ -	₩ 3,865	₩ 30,005
EmFrontier Inc.,	555	134,117	-	-
Chongqing Hankooktire Co., Ltd.,	-	-	3,745,796	-
Jiangsu Hankook Tire Co., Ltd.,	-	-	802,680	-
Hankook Tire China Co., Ltd.,	-	-	876,871	-

Total	₩ 67,437,908	₩ 134,117	₩ 5,429,212	₩ 30,005

Related-parties	2012 Sales	Purchase	Other revenue	Other cost
Hankook Tire Co., Ltd.,	₩ 19,999,205	₩ -	₩ 1,851	₩ 10,519
Chongqing Hankooktire Co., Ltd.,	-	-	1,273,367	-
Jiangsu Hankook Tire Co., Ltd.,	-	-	316,792	-
Hankook Tire China Co., Ltd.,	-	-	316,956	-
Total	₩ 19,999,205	₩ 134,117	₩ 1,908,966	₩ 10,519

2) Outstanding balances of receivables and payables as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

a) Accounts receivables and others

	2013			2012		
	Accounts receivables	Long / Short Loans	Other accounts receivables	Accounts receivables	Long / Short Loans	Other accounts receivables
Hankook Tire Co., Ltd.,	₩ 23,728,219	₩ -	₩ 929	₩ 56,101,919	₩ -	₩ 275,259
EmFrontier Inc.,	-	-	-	-	-	-
Shin-Yang Tourist Development	-	-	-	-	-	-
Chongqing Hankooktire Co., Ltd.,	-	86,671,440	313,596	-	86,447,080	527,531
Jiangsu Hankook Tire Co., Ltd.,	-	31,659,000	9,880	-	32,133,000	316,792
Hankook Tire China Co., Ltd.,	-	31,659,000	82,702	-	32,133,000	316,956
Total	₩ 23,728,219	₩ 149,989,440	₩ 407,107	₩ 56,101,919	₩150,713,080	₩ 1,436,538

b) Accounts payables and others

	2013		2012	
	Accounts payables	Other payables	Accounts payables	Other payables
Hankook Tire Co., Ltd.,	₩ 192,881	₩ 1,738,375	₩ 10,519	₩ 1,488,050
EmFrontier Inc.,	31,361	-	-	-
Shin-Yang Tourist Development	188,068	-	-	-
Total	₩ 412,310	₩ 1,738,375	₩ 10,519	₩ 1,488,050

3) Loans to related parties for the years ended December 31, 2013 and 2012, are as follows (Korean won in thousands):

Related-parties	Loans	2013 Beginning	Increase	Decrease	Change by exchange rate fluctuation	Ending
Chongqing Hankook Tire Co., Ltd.	Short-term	₩ 86,447,080	₩ 32,709,000	₩ (86,447,080)	₩ (1,050,000)	₩ 31,659,000
Jiangsu Hankook Tire Co., Ltd.	Short-term	32,133,000	32,232,000	(32,133,000)	(573,000)	31,659,000
Hankook Tire China Co., Ltd.	Short-term	32,133,000	33,411,000	(32,133,000)	(1,752,000)	31,659,000
Chongqing Hankooktire Co., Ltd.,	Long-term	-	58,008,640	-	(2,996,200)	55,012,440
Total		₩ 150,713,080	₩ 156,360,640	₩ (150,713,080)	₩ (6,371,200)	₩ 149,989,440

Related-parties	Loans	2012 Beginning	Change by spin-off	Change by exchange rate fluctuation	Ending
Chongqing Hankook Tire Co., Ltd.	Short-term	₩ -	₩ 90,500,880	₩ (4,053,800)	₩ 86,447,080
Jiangsu Hankook Tire Co., Ltd.	Short-term	-	34,038,000	(1,905,000)	32,133,000
Hankook Tire China Co., Ltd.	Short-term	-	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, 2013 and 2012. 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):

Debtor	Unit	Line of credit			
		2013		2012	
		Foreign currency	Korean won	Foreign currency	Korean won
Hankook Tire China Co., Ltd.	USD	50,000,000	₩ 52,765,000	80,000,000	₩ 85,688,000
Hankook Tire Europe GmbH	EUR	-	-	15,000,000	21,243,900
Hankook Tire Hungary Ltd. (*1)	EUR	230,000,000	334,939,800	540,500,000	765,488,530
	HUF	16,097,000,000	79,036,270	16,097,000,000	78,392,390
Hankook Tire Netherlands B.V.	EUR	4,854,441	7,069,328	4,854,441	6,875,151
Jiangsu Hankook Tire Co.,Ltd.	USD	50,000,000	52,765,000	60,000,000	64,266,000
Chongqing HankookTire Co.,Ltd	USD	70,000,000	73,871,000	70,000,000	74,977,000
PT. HANKOOKTIRE INDONESIA	USD	170,000,000	179,401,000	170,000,000	182,087,000
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	340,000,000	358,802,000	440,000,000	471,284,000
	EUR	234,854,441	342,009,128	680,354,441	922,139,581
	HUF	16,097,000,000	79,036,270	16,097,000,000	78,392,390
	Total		₩ 779,847,398		₩ 1,471,815,971

(*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

Also, outstanding credit facility agreements providing Hankook Tire Co., Ltd. jointly and severally as of December 31, 2013 and 2012, are as follows (in thousands) (See notes 31):

	December 31, 2013		December 31, 2012	
Unit	Foreign currency	Korean Won	Foreign currency	Korean Won
KRW	-	₩ -	408,780,000	₩ 408,780,000
USD	70,000	73,871,000	1,619,000	1,734,110,900
EUR	25,000	36,406,500	60,000	84,975,600

Of Hankook Tire Co., Ltd.'s borrowings, USD 50,000,000 owing to Korea Finance Corporation was incurred before the spin-off, so that the company is jointly and severally liable with Hankook Tire Co., Ltd.

(3) Compensation for key management personnel for the years ended December 31, 2013 and 2012 is as follows (Korean won in thousands):

	2013	2012
Short-term benefits	₩ 2,893,055	₩ 2,259,813
Severance and retirement benefits	309,916	423,927
Total	₩ 3,202,971	₩ 2,683,740

29. Cash and cash equivalents:

(1) Cash and cash equivalents consist of cash and bank deposit minus overdraft on the statements of cash flows. As of December 31, 2013 and 2012, Cash and cash equivalents of the financial statements is calculated as follows (Korean won in thousands):

	2013		2012	
Cash and bank deposit	₩	70,876,555	₩	85,418,967
Less : Overdraft		-		-
Cash and cash equivalents	₩	70,876,555	₩	85,418,967

(2) As of December 31, 2013 and 2012, The major non-cash investing and financial activities transaction, not including Cash Flow statement is as follows (Korean won in thousands):

	2013		2012	
Transfer Construction in progress into Property	₩	2,314,073	₩	-
Transfer Advance payments into Intangible assets		238,413		-
Investment in kind		1,321,372,157		-
Transfer AFS financial assets into Investments in accociates		297,987,252		-

30. 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, 2013 and 2012, are as follows (Korean won in thousands):

	2013	2012
Total liabilities	₩ 81,836,887	₩ 149,058,759
Total shareholders' equity	2,271,331,174	825,252,470
Debt ratio	3.60%	18.06%

(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, 2013 and 2012, are as follows (Korean won in thousands):

1) Financial Assets

		2013		2012	
Categories	Account	Book value	Fair value	Book value	Fair value
Derivative financial assets	Other financial assets	₩ 9,263,151	₩ 9,263,151	₩ 2,381,793	₩ 2,381,793
Financial assets at FVTPL	Financial assets at FVTPL	3,487,265	3,487,265	6,983,394	6,983,394
Financial assets AFS	AFS financial assets	20,239,682	20,239,682	289,960,804	289,960,804
Loans and receivables	Cash and cash equivalents	70,876,555	70,876,555	85,418,967	85,418,967
	Short-term financial assets	226,000,000	226,000,000	215,498,911	215,498,911
	Trade receivables	23,728,846	23,728,846	56,101,909	56,101,909
	Accounts receivable	119,534	119,534	789,014	789,014
	Accrued income	2,081,703	2,081,703	3,762,534	3,762,534
	Short-term loans	94,977,000	94,977,000	150,713,080	150,713,080
	Long-term loans	55,012,440	55,012,440	-	-
	Total	₩ 505,786,176	₩ 505,786,176	₩2,391,154,202	₩ 811,610,406

2) Financial Liabilities

Categories	Account	2013 Book value	2013 Fair value	2012 Book value	2012 Fair value
Financial liabilities at amortized cost	Accounts payable	₩ 2,477,158	₩ 2,477,158	₩ 10,886,294	₩ 10,886,294
	Dividends payable	54,441	54,441	52,633	52,633
	Accrued expenses	2,131,410	2,131,410	1,580,197	1,580,197
	Rental deposits	8,799,357	8,799,357	8,670,872	8,670,872
	Total	₩ 13,462,366	₩ 13,462,366	₩ 21,189,996	₩ 21,189,996

(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, 2013 and 2012, are as follows (Korean won in thousands):

	2013 Assets	2013 Liabilities	2012 Assets	2012 Liabilities
USD	₩ 95,504,337	₩ -	₩ 96,614,720	₩ -
CNY	56,252,986	-	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, 2013, 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):

	2013		2012	
	Profit or loss	Equity	Profit or loss	Equity
USD	₩ 9,550,434	₩ -	₩ 9,661,472	₩ -
CNY	5,625,299	-	5,592,744	-

Details of unpaid currency forward contracts for the years ended December 31, 2013 and 2012, are as follows (all currencies in thousands):

	December 31, 2013						
	Contract date	Expire date	Contract sum	Contract rate	Strike Amount	Fair value	Gain(Loss) on valuation
Deutsche Bank AG	2013/3/11	2014/3/11	USD 10,000	1,116.70	₩ 11,167,000	₩ 10,598,871	₩ 568,129
	2013/9/27	2014/9/29	USD 30,000	1,095.50	32,865,000	32,061,310	803,690
	2013/5/27	2016/5/26	CNY 136,000	176.82	24,047,656	22,027,128	2,020,528
	2013/5/28	2016/5/29	CNY 180,000	176.63	31,793,040	29,147,170	2,645,870
Standard Chartered	2013/3/11	2014/3/11	USD 20,000	1,117.00	22,340,000	21,197,742	1,142,258
Woori Bank	2013/8/20	2014/8/19	USD 30,000	1,136.70	34,101,000	32,018,324	2,082,676
Total					₩156,313,696	₩ 147,050,545	₩ 9,263,151

	December 31, 2012						
	Contract date	Expire date	Contract sum	Contract rate	Strike Amount	Fair value	Gain(Loss) on valuation
Deutsche Bank AG	2012/3/29	2013/3/28	USD 20,000	1,155.80	₩ 23,116,000	₩ 21,528,138	₩ 1,587,862
Standard Chartered	2012/3/29	2013/3/28	USD 10,000	1,155.80	11,558,000	10,764,069	793,931
Total					₩ 34,674,000	₩ 32,292,207	₩ 2,381,793

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.

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, 2013 and 2012, will be as follows (before tax effect, Korean won in thousands):

	2013	2012
Equity instruments held for trading	₩ 174,363	₩ 349,170
AFS equity instruments	21,203	13,433,423

The price sensitivity of the Company indicated no significant change for the years ended December 31, 2013 and 2012.

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):

	2013
Financial guarantee contracts	₩ 779,847,398

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.

a) 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, 2013 and 2012, are as follows (Korean won in thousands):

	2013			
	Within a year	1-5 years	After 5 years	Total
Interest-free:				
Accounts payable	₩ 2,477,158	₩ -	₩ -	₩ 2,477,158
Accrued expenses	2,131,410	-	-	2,131,410
Dividends payable	54,441	-	-	54,441
Rental deposits	-	8,799,357	-	8,799,357
Total	₩ 4,663,009	₩ 8,799,357	₩ -	₩ 13,462,366

	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	₩ 12,519,124	₩ 8,670,872	₩ -	₩ 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, 2013 and 2012, are as follows (Korean won in thousands):

	2013			
	Within a year	1-5 years	After 5 years	Total
Interest-free:				
Trade receivables	₩ 23,728,846	₩ -	₩ -	₩ 23,728,846
Accounts receivable	119,534	-	-	119,534
Accrued income	2,081,703	-	-	2,081,703
Fixed rate financial instrument:				
Cash and cash equivalents	70,876,555	-	-	70,876,555
Short-term financial assets	226,000,000	-	-	226,000,000
Financial assets at FVTPL	3,487,265	-	-	3,487,265
Loans	94,977,000	55,012,440	-	149,989,440
Financial assets AFS	2,665,087	-	17,574,595	20,239,682
Total	₩ 423,935,990	₩ -	₩ 72,587,035	₩ 496,523,025

	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 ₩14,945,683 thousand in 2013 (₩9,833,975 thousand in 2012). 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	After 1 year	Total
Net Settlement :					
Currency forward contracts	₩ -	₩ 1,710,387	₩ 2,886,366	₩ 4,666,398	₩ 9,263,151

b) Financing arrangements

Details of the Company's financing arrangements as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

Description		December 31, 2013	December 31, 2012

Purchase card agreements	Used	₩	54,317	₩	166,025
	Unused		9,945,683		4,833,975
	Subtotal		10,000,000		5,000,000
Bank overdraft agreements	Used		-		-
	Unused		5,000,000		5,000,000
	Subtotal		5,000,000		5,000,000
Foreign exchange forward contracts	Used		149,989,440		32,133,000
	Unused		-		-
	Subtotal		149,989,440		32,133,000
TOTAL	Used		150,043,757		32,299,025
	Unused		14,945,683		9,833,975
	Subtotal	₩	164,989,440	₩	42,133,000

(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, 2013 and 2012, are as follows (Korean won in thousands):

	2013			
	Level 1	Level 2	Level 3	Total
Dealing securities:	₩ 3,487,265	₩ -	₩ -	₩ 3,487,265
Financial assets AFS:				
Marketable equity instruments	424,056	-	-	424,056
Nonmarketable debt instruments	-	17,574,595	2,000,000	19,574,595
Derivative instruments:	-	9,263,151	-	9,263,151
Total	₩ 3,911,321	₩ 26,837,746	₩ 2,000,000	₩ 32,749,067

	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 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	₩ 2,000,000	₩ 298,970,687

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, 2013 and 2012, are as follows (Korean won in thousands):

	2013			
	Beginning balance	Net income	Disposals	Ending balance
Financial assets AFS:				
Nonmarketable debt instruments	₩ 2,000,000	₩ -	₩ -	₩ 2,000,000

	2012				
	Beginning balance	Net income	Disposals	Decrease due to spin-off	Ending balance
Financial assets AFS:					
Nonmarketable debt instruments	₩ 12,000,000	₩(10,000,000)	₩ -	₩ -	₩ 2,000,000
Nonmarketable equity 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.

31. COMMITMENTS AND CONTINGENCIES:

(1) Details of insurance products

As of December 31, 2013, 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	₩	70,409,345	The Company
Movable All Risks (*2)	Other investments (paintings)		1,353,539	The Company
Total		₩	71,762,884	

(*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, 2013 and 2012, are as follows (all currencies in thousands):

Description	Financial institutions	Currencies	2013	2012
Purchase card agreements	Shinhan Bank and others	KRW	10,000,000	10,000,000
Bank overdraft agreements	Woori Bank	KRW	5,000,000	5,000,000
Agreements to forward exchange contracts	Standard Chartered Bank Korea and others	USD	90,000	90,000
		CNY	316,000	316,000
Total		KRW	15,000,000	15,000,000
		USD	90,000	90,000
		CNY	316,000	316,000

(3) Purchase agreement

As of December 31, 2013, 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.

32. 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 new 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, 2012.

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, 2013 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, is as follows (Korean won in thousands):

		2012
Sales	₩	4,721,423,219
Cost of sales		(3,328,691,292)
Gross profit		1,392,731,927
Selling expense		(379,867,879)
Administrative expenses		(305,159,888)
Research and development expenses		(84,348,180)
Operating income		623,355,980
Financial income		101,645,996
Financial expense		(94,260,956)
Other non-operating income		179,089,630
Other non-operating expense		(196,299,081)
Gain on disposal of discontinued operations		2,739,647,744
Income before income tax expense		3,353,179,313
Income tax expense		(81,371,579)
Net income of discontinued operations	₩	3,271,807,734

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

		2012
Cash flow from operating activities	₩	469,632,093
Cash flow from investing activities		(563,462,041)
Cash flow from financing activities		361,017,965

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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, 2013. 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, 2013, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2013, 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, 2013, and we did not review its IACS subsequent to December 31, 2013. 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, Jong Ho
Internal Accounting Control Officer

Cho, Hyun Sik
Chief Executive Officer