HANKOOK TIRE WORLDWIDE CO., LTD.

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2015 AND 2014,
AND INDEPENDENT AUDITORS' REPORT

ATTACHMENT: INDEPENDENT AUDITORS' REPORT

HANKOOK TIRE WORLDWIDE CO., LTD.

Independent Auditors' Report

English Translation of Independent Auditors' Report Originally Issued in Korean on March 17, 2016

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

Report on the Financial Statements

We have audited the accompanying financial statement of Hankook Tire Worldwide Co., Ltd. (the "Company"). The financial statements consist of the statement of financial position as of December 31, 2015 and 2014, 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 years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with K-IFRS.

March 17, 2016

Notice to Readers

This report is effective as of March 17, 2016, 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 WORLDWIDE CO., LTD.
(the "Company")

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2015 AND 2014

The accompanying financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, the Company.

Cho, Yang Rai/Cho, Hyun Shick
Chief Executive Officer
Hankook Tire Worldwide Co., Ltd
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HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2015 AND 2014

ASSETS	Notes	2015	2014
		(Korean won in thousands)	
CURRENT ASSETS:			
Cash and cash equivalents	29,30	₩ 124,995,571	₩ 211,798,689
Short-term financial assets	30	269,000,000	180,000,000
Trade and other accounts receivable	4,28,30	33,629,539	28,739,804
Other financial assets	6,28,30	35,160,000	32,976,000
Other current assets	7	18,311	2,212,194
TOTAL CURRENT ASSETS		462,803,421	455,726,687
NON-CURRENT ASSETS:			
AFS financial assets	5,30	22,561,651	20,733,839
Investments in associates	8	2,058,766,952	1,906,798,987
Property, plant and equipment	9,31	29,118,292	30,341,586
Investment property	10	25,534,180	26,704,361
Intangible assets	11	8,976,656	6,423,100
Defined benefit assets	14	1,468,031	645,129
Other financial assets	6,28,30	57,053,800	58,395,054
Other non-current assets	7,31	650,018	650,018
TOTAL NON-CURRENT ASSETS		2,204,129,580	2,050,692,074
TOTAL ASSETS		₩ 2,666,933,001	₩ 2,506,418,761

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2015 AND 2014

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	2015	2014
		(Korean won in thousands)	
CURRENT LIABILITIES:			
Trade and other accounts payable	12,28,30	₩ 5,413,563	₩ 4,617,442
Current tax liabilities		3,102,261	6,936,059
Other financial liabilities	16,30	2,942,568	429,313
Other current liabilities	13	1,329,732	2,051,440
TOTAL CURRENT LIABILITIES		12,788,124	14,034,254
NON-CURRENT LIABILITIES:			
Other provisions	15	222,740	169,026
Other financial liabilities	16,28,30	8,701,060	8,893,925
Deferred tax liabilities	26	78,577,114	68,206,875
TOTAL NON-CURRENT LIABILITIES		87,500,914	77,269,827
TOTAL LIABILITIES		100,289,038	91,304,080
SHAREHOLDERS' EQUITY:			
Capital stock	17	46,510,087	46,510,087
Other paid-up capital	18	1,286,905,972	1,286,905,972
Retained earnings	19	1,255,925,338	1,114,488,258
Other equity	20	(22,697,433)	(32,789,636)
TOTAL SHAREHOLDERS' EQUITY		2,566,643,963	2,415,114,681
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		₩ 2,666,933,001	₩ 2,506,418,761

(Concluded)

See notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Notes	2015	2014
		(Korean won in thousands, except for income per share data)	
CONTINUING OPERATION:			
OPERATING REVENUE	21,28	₩ 223,646,645	₩ 229,263,916
OPERATING EXPENSES	22,28	(42,086,347)	(41,033,408)
OPERATING INCOME		181,560,298	188,230,508
Financial income	23	14,573,779	18,559,058
Financial expense	24	(6,733,230)	(4,900,151)
Other non-operating income	25,28	2,302,810	2,267,235
Other non-operating expense	25	(3,628,052)	(2,011,506)
INCOME BEFORE INCOME TAX EXPENSE		188,075,605	202,145,144
INCOME TAX EXPENSE	26	(15,372,458)	(18,318,154)
NET INCOME FROM CONTINUING OPERATIONS		172,703,147	183,826,990
DISCONTINUED OPERATION:			
NET INCOME FROM DISCONTINUED OPERATIONS		-	-
NET INCOME		₩ 172,703,147	₩ 183,826,990
OTHER COMPREHENSIVE INCOME (LOSS)		₩ 6,334,661	₩ (12,534,957)
Items not to be reclassified subsequently to profit or loss		₩ (3,757,542)	₩ (4,986,557)
Remeasurements of retirement benefit plan	14,19	280,259	(82,398)
Retained earnings changes due to investments in associates accounted for using the equity method	19	(4,171,777)	(5,182,153)
Tax effects on other comprehensive income	19	133,976	277,994
		₩ (3,757,542)	₩ (4,986,557)
Items to be reclassified subsequently to profit or loss		10,092,203	(7,548,400)
Gains on valuation of AFS financial assets	20	3,381,900	2,515,107
Equity changes accounted for using the equity method	20	7,911,820	(9,935,915)
Tax effects on other comprehensive income	20	(1,201,517)	(127,592)
		₩ 10,092,203	₩ (7,548,400)
COMPREHENSIVE INCOME		₩ 179,037,808	₩ 171,292,033

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	Notes	2015	2014
		(Korean won in thousands, except for income per share data)	
NET INCOME ATTRIBUTABLE TO:			
Owners of the Company:			
Net income from continuing operations		₩ 172,703,147	₩ 183,826,990
Net income from discontinued operations		-	-
		172,703,147	183,826,990
Non-controlling interests:			
Net income from continuing operations		-	-
Net income from discontinued operations		-	-
		-	-
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the Company		179,037,808	171,292,033
Non-controlling interests		-	-
		179,037,808	171,292,033
NET INCOME PER SHARE (Korean won):			
Basic and diluted income per share of continuing operation	27	₩ 1,883	₩ 2,005
Basic and diluted income per share of discontinued operation		₩ -	₩ -

(Concluded)

See notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

(Korean won in thousands)

		Other paid-up capital								
	Capital stock	Additional paid-up capital	Treasury stocks	Losses on capital reduction	Other paid-up capital	Retained earnings	Other equity	Owners of the Company	Non-controlling interests	Total
As of January 1, 2015	₩ 46,510,087	₩ 1,302,628,300	₩ (11,092,609)	₩ -	₩ (4,629,719)	₩ 1,114,488,258	₩ (32,789,636)	₩ 2,415,114,681	₩ -	₩ 2,415,114,681
Cash dividends	-	-	-	-	-	(27,508,526)	-	(27,508,526)	-	(27,508,526)
Comprehensive income	-	-	-	-	-	168,945,605	10,092,203	179,037,808	-	179,037,808
Net income	-	-	-	-	-	172,703,147	-	172,703,147	-	172,703,147
Gains on valuation of AFS financial assets, net	-	-	-	-	-	-	2,563,480	2,563,480	-	2,563,480
Equity changes accounted for using the equity method	-	-	-	-	-	-	7,528,723	7,528,723	-	7,528,723
Actuarial losses on defined benefit plans	-	-	-	-	-	212,436	-	212,436	-	212,436
Retained earnings changes due to investments in associates accounted for using the equity method	-	-	-	-	-	(3,969,979)	-	(3,969,979)	-	(3,969,979)
As of December 31, 2015	₩ 46,510,087	₩ 1,302,628,300	₩ (11,092,609)	₩ -	₩ (4,629,719)	₩ (1,255,925,,338)	₩ (22,697,433)	₩ 2,566,643,963	₩ -	₩ 2,566,643,963

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

(Korean won in thousands)

	Capital stock	Other paid-up capital: Additional paid-up capital	Other paid-up capital: Treasury stocks	Other paid-up capital: Losses on capital reduction	Other paid-up capital: Other paid-up capital	Retained earnings	Other equity	Owners of the Company	Non-controlling interests	Total
As of January 1, 2014	₩ 46,510,087	₩ 1,302,628,300	₩ (11,092,609)	₩ -	₩ (4,629,719)	₩ 963,156,351	₩ (25,241,236)	₩ 2,271,331,174	₩ -	₩ 2,271,331,174
Cash dividends	-	-	-	-	-	(27,508,526)	-	(27,508,526)	-	(27,508,526)
Comprehensive income	-	-	-	-	-	178,840,433	(7,548,400)	171,292,033	-	171,292,033
Net income	-	-	-	-	-	183,826,990	-	183,826,990	-	183,826,990
Gains on valuation of AFS financial assets, net	-	-	-	-	-	-	1,906,451	1,906,451	-	1,906,451
Equity changes accounted for using the equity method	-	-	-	-	-	-	(9,454,851)	(9,454,851)	-	(9,454,851)
Actuarial losses on defined benefit plans	-	-	-	-	-	(62,458)	-	(62,458)	-	(62,458)
Retained earnings changes due to investments in associates accounted for using the equity method	-	-	-	-	-	(4,924,099)	-	(4,924,099)	-	(4,924,099)
As of December 31, 2014	₩ 46,510,087	₩ 1,302,628,300	₩ (11,092,609)	₩ -	₩ (4,629,719)	₩ 1,114,488,258	₩ (32,789,636)	₩ 2,415,114,681	₩ -	₩ 2,415,114,681

(Concluded)

See notes to financial statements.

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

		2015		2014
		(Korean won in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	₩	172,703,147	₩	183,826,990
Adjustments:				
Income tax expense		15,372,458		18,318,154
Interest income		(11,178,415)		(13,725,369)
Dividend incomes		(1,863)		(42,505)
Gain on foreign currency translation		(3,233,121)		(1,983,139)
Loss on foreign currency translation		2,784		10,579
Gain on investments in associates		(151,961,286)		(158,463,883)
Gain on disposal of AFS securities		(1,892)		(49,623)
Gain on foreign exchange forward transaction		-		(2,267,634)
Loss on foreign exchange forward transaction		4,688		180,387
Loss on valuation of foreign exchange forward contracts		5,067,941		2,705,337
Gain on disposal of property, plant and equipment		(93)		(588)
Impairment loss of property, plant and equipment		301,888		-
Loss on disposal of property, plant and equipment		1		-
Impairment loss of intangible assets		233,888		529,822
Loss on disposal of intangible assets		-		120,366
Depreciation of property, plant and equipment		1,123,438		1,173,474
Depreciation of investment in properties		1,170,181		1,170,181
Amortization of intangible assets		322,335		339,064
Impairment loss of AFS securities		1,554,088		-
Loss on disposal and evaluation of held-for-trading securities, net		-		125,310
Miscellaneous loss		-		23,379
Employee benefits		70,222		39,328
Provision for severance benefits		2,704,558		1,833,126
		(138,448,200)		(149,964,234)
Changes in operating assets and liabilities:				
Increase in trade receivables		(2,202,245)		(1,765,864)
Decrease (increase) in other accounts receivable		167,398		(18,668)
Increase in advance payments		(5,000)		(1,033,134)
(Increase) decrease in prepaid expenses		(1,715)		2,692
Increase in accounts payable		2,500,062		237,901
Decrease in accrued expenses		(1,704,959)		(293,674)
Decrease (increase) in deposits		(721,708)		1,062,308
Payment of severance indemnities		(1,240,239)		(289,836)
Increase (decrease) in plan assets		(6,465,622)		191,409
Increase in rental deposits		72,134		94,569
Payment of long-term debts for employees		(16,508)		(6,672)
		(9,618,404)		(1,818,969)

(Continued)

HANKOOK TIRE WORLDWIDE CO., LTD.

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
	(Korean won in thousands)	
Interest revenue received	₩ 12,784,050	₩ 12,742,658
Dividend received	14,379,238	14,379,238
Income tax paid	(9,903,558)	(10,273,838)
Net cash provided by operating activities:	41,896,273	48,891,845
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease (increase) of short-term financial assets	(89,000,000)	49,361,955
Increase of short-term loans	-	(31,986,000)
Decrease of short-term loans	-	94,977,000
Acquisition of investments in associates	(10,645,873)	-
Disposal of AFS securities	1,892	2,070,574
Acquisition of property, plant and equipment	(204,134)	(334,765)
Disposal of property, plant and equipment	2,195	589
Acquisition of intangible assets	(923,033)	(1,276,400)
Disposal of intangible assets	13,853	41,311
Settlement of derivatives	(434,000)	6,684,000
Net cash provided by (used in) investing activities:	(101,189,100)	119,538,264
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(27,508,167)	(27,497,454)
Net cash used in financing activities	(27,508,167)	(27,497,454)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(86,800,995)	140,932,655
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	211,798,689	70,876,555
CHANGES IN CASH AND CASH EQUIVALENTS DUE TO FOREIGN CURRENCY TRANSLATION	(2,122)	(10,521)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	₩ 124,995,571	₩ 211,798,689

(Concluded)

See notes to financial statements.

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, 2015. The capital stock of the Company is ₩46,510,087 thousand (common shares: 93,020,173 thousand) and the Company’s shareholders as of December 31, 2015 and 2014, are as follows:

	December 31, 2015		December 31, 2014	
	Number of shares owned	Percentage of ownership (%)	Number of shares owned	Percentage of ownership (%)
Yang Rai Cho	21,942,693	23.59	21,942,693	23.59
Hyun Shick Cho	17,974,870	19.32	17,974,870	19.32
Hyun Bum Cho	17,959,178	19.31	17,959,178	19.31
Others (*)	35,143,432	37.78	35,143,432	37.78
	93,020,173	100.00	93,020,173	100.00

(*) Including 1,325,089 shares as of December 31, 2015, and 1,325,088 shares as of December 31, 2014, in treasury stock

The financial statement of the reporting period for the annual meeting of shareholders have been approved to be issued by the board of directors on March 17, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of preparing the financial statements

The Company has prepared the financial statements in accordance with the Korean International Financial Reporting Standards (“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, 2015 and 2014, 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 1019, *Employee Benefits*

The amendments permit the Company to recognize the amount of contributions as a reduction in the service cost for the period in which the related service is rendered if the amount of the contributions is independent of the number of years of service. The application of the enactments has no material impact on the Company's financial statements.

Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1102, *Share-based Payment,* (i) change the definitions of 'vesting condition' and 'market condition' and (ii) add definition in for 'performance condition' and 'service condition,' which were previously included within the definition of 'vesting condition.' The amendments to K-IFRS 1103, *Business Combinations*, clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The application of the enactments has no material impact on the Company's financial statements.

Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis, and includes all contracts that are within the scope the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statement of the joint arrangement itself. The amendments to K-IFRS 1113, *Fair Value Measurements* and K-IFRS 1040, *Investment Properties*, exist and the application of the enactments has no material impact on the Company's financial statements.

2) New and revised K-IFRS in issue, but not yet effective

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

Amendments to K-IFRS 1001, Presentation of Financial Statements

The amendments to K-IFRS 1001 clarify the concept of applying materiality in practice and restrict an entity reducing the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. The amendments to K-IFRS 1001 are effective for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1016, *Property, Plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Company from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038, *Intangible Assets*

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments to K-IFRS 1038 do not allow the presumption that revenue is an appropriate basis for the amortization of intangible assets; the presumption can only be limited when the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to K-IFRS 1110, Consolidated Financial Statements, K-IFRS 1112, Disclosure of Interests in Other Entities and K-IFRS 1028, Investment in Associates

The amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries. The amendments are effective for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1111, *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1109 – Financial Instruments

The amendments to K-IFRS 1109 contain the requirements for the classification and measurement of financial assets and financial liabilities based on a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and based on the contractual terms that give rise on specified dates to cash flows, impairment methodology based on the expected credit losses, broadened types of instruments that qualify as hedging instruments, the types of risk components of non-financial items that are eligible for hedge accounting and the change of the hedge effectiveness test. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to K-IFRS 1115 – Revenue from Contracts with Customers

The core principle under K-IFRS 1115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments introduces a five-step approach to revenue recognition and measurement: 1) Identify the contract with a customer, 2) Identify the performance obligations in the contract, 3) Determine the transaction price, 4) Allocate the transaction price to the performance obligations in the contract and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. This standard will supersede K-IFRS 1011 - Construction Contracts, K-IFRS 1018, *Revenue*; K-IFRS 2113, *Customer Loyalty Programmes*; K-IFRS 2115, *Agreements for the Construction of Real Estate*; K-IFRS 2118, *Transfers of Assets from Customers*, and K-IFRS 2031, *Revenue-Barter Transactions Involving Advertising Services*. The amendments are effective for annual periods beginning on or after January 1, 2018.

Annual Improvements to K-IFRS 2012-2014 Cycle

The annual improvements include amendments to a number of K-IFRSs. The amendments introduce specific guidance in K-IFRS 1105, Non-current Assets Held for Sale and Discontinued Operations, when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). Such a change is considered as a continuation of the original plan of disposal not as a change to a plan of sale. Other amendments in the annual improvements include K-IFRS 1107, *Financial Instruments: Disclosures*, K-IFRS 1019 and K-IFRS 1034, *Interim Financial Reporting*.

Amendments to K-IFRS 1027, *Separate Financial Statements*

The amendments to K-IFRS 1027 discuss accounting for investments in subsidiaries, joint ventures and associates at cost basis and allow the selection of the application of K-IFRS 1039, *Financial Instruments: Recognition and Measurement*, or the application of equity method accounting under K-IFRS 1028, *Investment in Associates and Joint Ventures*. The amendments are effective for the annual periods beginning on or after January 1, 2016.

The Company does not anticipate that the above-mentioned enactments and amendments will have any significant effect on the Company’s financial statements.

(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 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 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 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 to 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 financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105. Under the equity method, an investment in an associate or a joint venture is initially recognized in the 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 that 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 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 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, and 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 financial statements only to the extent of interests in the associate or joint venture that are not related to the Company.

(4) 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 continued 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 control over 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 as 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, 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.

(5) 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) 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.

2) Royalties

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

3) 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 timely 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.

4) Rental income

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

(6) 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 statement 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.

(7) Foreign currencies

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

In preparing the financial statement 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.

(8) 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.

(9) Government grants

Government grants are not recognized until there is a 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 statement 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.

(10) 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 costs (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.

(11) 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 statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent 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 it is probable that there will be sufficient taxable profits against which the benefits of the temporary differences can be utilized 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 it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets 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 is 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 to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

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 taxes 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.

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.

(12) 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 its 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 the 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.

(13) 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 the 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.

(14) 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 of intangible assets 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, and only if, the development project is designed to produce new or substantially improved products, and the Company can demonstrate the technical and economic 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.

(15) 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 (CGU) to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs; otherwise, they are allocated to the smallest group of CGUs 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, or value in use. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) 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 CGU) is increased to the revised estimate of its recoverable amount, 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 CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(16) 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 that period.

(17) 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 FVTPL 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 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 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 contingent consideration that may be paid by an acquirer as part of business combination to which K-IFRS 1103 applies.

A financial asset is classified as held for trading if:

• it has been acquired principally for the purpose of selling in the near term;
• 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;
• 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 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 statement 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) HTM investments or (c) financial assets at FVTPL.

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 investment 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 and 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;
• default or delinquency in interest or principal payments;
• probability 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 that 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.

With respect to 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. With respect to 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, it 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, it 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 asset other than in its entirety (e.g., when the Company retains an option to repurchase part of a transferred asset or retains a residual interest and such a 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.

(18) 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 equity in accordance with the substance of the contractual arrangement and the definitions of a 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 an 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 costs 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 costs directly attributable to acquisition of financial liabilities at FVTPL 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 a financial liability is contingent consideration that may be paid by an acquirer as part of a business combination to which K-IFRS 1103 applies, or held for trading, or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term;
- 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;
- 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 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 statement 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 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), 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 debt instrument.

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

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

8) Derecognition of financial liabilities

The Company derecognizes financial liabilities when its obligations are discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(19) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, 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, and a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Embedded derivatives

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

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

2) Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives with respect to 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 item of the statement 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 statement 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.

(20) 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 financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102; 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 realizable 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.
- 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's 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 those 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 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 CGUs 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 CGU 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 postretirement 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 postretirement benefit plan.

4. TRADE AND OTHER RECEIVABLES:

(1) Details of trade and other receivables as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015		
	Gross amount	Less: Allowance for debt	Net amount
Trade receivables	₩ 27,696,955	₩ -	₩ 27,696,955
Other accounts receivable	4,473,805	-	4,473,805
Accrued income	1,458,779	-	1,458,779
Total	₩ 33,629,539	₩ -	₩ 33,629,539

	2014		
	Gross amount	Less: Allowance for debt	Net amount
Trade receivables	₩ 25,494,709	₩ -	₩ 25,494,709
Other accounts receivable	180,681	-	180,681
Accrued income	3,064,414	-	3,064,414
Total	₩ 28,739,804	₩ -	₩ 28,739,804

(2) There are no changes in allowance for trade and other receivables for the year ended December 31, 2015, and changes for the year ended December 31, 2014, are as follows (Korean won in thousands):

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

As of December 31, 2015, ₩33,629,539 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 ₩33,072,627 thousand of total trade receivables and other accounts receivable.

5. AFS SECURITIES:

(1) Details of AFS securities as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
AFS securities:				
Equity instruments	₩ -	₩ 533,796	₩ -	₩ 558,676
Debt instruments	-	22,027,855	-	20,175,163
Total	₩ -	₩ 22,561,651	₩ -	₩ 20,733,839

(2) Changes in AFS financial assets for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015				
	Beginning balance	Evaluation	Disposal	Transfer	Ending balance
LB Semicon Inc.	₩ 338,595	₩ (24,880)	₩ -	₩ -	₩ 313,715
Others	220,081	-	-	-	220,081
Total	₩ 558,676	₩ (24,880)	₩ -	₩ -	₩ 533,796

	2014									
	Beginning balance		Evaluation		Disposal		Transfer		Ending balance	
LB Semicon Inc.	₩	424,056	₩	(85,461)	₩	-	₩	-	₩	338,595
Others		241,031		-		(20,950)		-		220,081
Total	₩	665,087	₩	(85,461)	₩	(20,950)	₩	-	₩	558,676

6. OTHER FINANCIAL ASSETS:

Details of other financial assets as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015				2014			
	Current		Non-current		Current		Non-current	
Foreign exchange forward contracts	₩	-	₩	-	₩	-	₩	2,390,374
Loans(*1)		35,160,000		57,053,800		32,976,000		56,004,680
Total	₩	35,160,000	₩	57,053,800	₩	32,976,000	₩	58,395,054

(*1) The Company provides loans to its subsidiaries.(Note 28)

7. OTHER ASSETS:

Details of other assets as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015				2014			
	Current		Non-current		Current		Non-current	
Advance payments	₩	5,000	₩	-	₩	2,200,599	₩	-
Prepaid expenses		13,311		-		11,595		-
Others		-		650,018		-		650,018
Total	₩	18,311	₩	650,018	₩	2,212,194	₩	650,018

8. INVESTMENTS IN ASSOCIATES:

(1) The status of the investment in associates as of December 31, 2015 and 2014, is 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, 2015 and 2014, are as follows (Korean won in thousands):

	2015						
Associate	Reporting month	Number of shares	Percentage of ownership (%)		Acquisition cost		Carrying value
Hankook Tire Co., Ltd.	December	31,174,527	25.16	₩	1,627,655,750	₩	1,913,030,520
Atlas BX Co., Ltd.	December	2,848,685	31.13		12,229,979		137,744,278
EmFrontier, Inc.	December	1,333,334	40.00		2,778,102		7,992,154
Total				₩	1,642,663,831	₩	2,058,766,952

	2014						
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	₩	1,779,535,603
Atlas BX Co., Ltd.	December	2,848,685	31.13		12,229,979		123,163,976
EmFrontier, Inc.	December	857,142	29.99		428,571		4,099,408
Total				₩	1,632,017,959	₩	1,906,798,987

(3) Details of evaluation using equity method on the Company's investment in associates for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015									
Associate		Beginning balance		Acquisition (disposal)		Gain on valuation of equity method securities		Other changes		Ending balance
Hankook Tire Co., Ltd.	₩	1,779,535,603	₩	8,296,341	₩	133,256,052	₩	(8,057,476)	₩	1,913,030,520
Atlas BX Co., Ltd.		123,163,976		-		17,013,892		(2,433,590)		137,744,278
EmFrontier, Inc.		4,099,408		2,349,531		1,691,342		(148,127)		7,992,154
Total	₩	1,906,798,987	₩	10,645,872	₩	151,961,286	₩	(10,639,193)	₩	2,058,766,952

	2014									
Associate		Beginning balance		Acquisition (disposal)		Gain on valuation of equity method securities		Other changes		Ending balance
Hankook Tire Co., Ltd.	₩	1,664,413,574	₩	-	₩	141,848,826	₩	(26,726,797)	₩	1,779,535,603
Atlas BX Co., Ltd.		109,823,244		-		16,073,006		(2,732,274)		123,163,976
EmFrontier, Inc.		3,595,590		-		542,051		(38,233)		4,099,408
Total	₩	1,777,832,408	₩	-	₩	158,463,883	₩	(29,497,304)	₩	1,906,798,987

(4) As of December 31, 2015 and 2014, fair value of marketable investment in associates is as follows (Korean won in thousands):

Associate		2015		2014
Hankook Tire Co., Ltd.	₩	1,466,761,495	₩	1,631,744,567
Atlas BX Co., Ltd.		116,653,651		110,101,675

(5) As of December 31, 2015 and 2014, summarized financial information of associates is as follows (Korean won in thousands):

	2015					
	Hankook Tire Co., Ltd.		Atlas BX Co., Ltd.		EmFrontier, Inc.	
Current assets	₩	3,388,722,335	₩	436,620,800	₩	47,325,767
Non-current assets		8,014,154,404		106,255,010		2,339,114
Total Assets	₩	11,402,876,739	₩	542,875,810	₩	49,664,881
Current liabilities	₩	2,906,881,004	₩	95,917,348	₩	27,875,086
Non-current liabilities		1,930,273,661		4,522,684		1,808,307
Total Liabilities	₩	4,837,154,665	₩	100,440,032	₩	29,683,393
Owners of the Company	₩	6,559,287,378	₩	442,435,778	₩	19,980,377
Non-controlling interests		6,434,696		-		1,111
Total Shareholders' Equity	₩	6,565,722,074	₩	442,435,778	₩	19,981,488
Sales	₩	6,428,172,502	₩	542,420,353	₩	119,485,365
Operating income		707,483,731		65,575,197		5,281,633
Net income		522,462,929		54,648,767		4,337,049
Comprehensive income		539,940,144		53,029,064		3,964,528

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

	2014					
	Hankook Tire Co., Ltd.		Atlas BX Co., Ltd.		EmFrontier, Inc.	
Current assets	₩	3,879,785,423	₩	365,728,220	₩	43,278,534
Non-current assets		6,525,894,210		116,426,673		1,905,352
Total Assets	₩	10,405,679,633	₩	482,154,893	₩	45,183,886
Current liabilities	₩	3,069,344,282	₩	81,921,721	₩	29,526,324
Non-current liabilities		1,261,963,608		4,629,448		1,992,860
Total Liabilities	₩	4,331,307,890	₩	86,551,169	₩	31,519,184
Owners of the Company	₩	6,068,888,307	₩	395,603,724	₩	13,664,703
Non-controlling interests		5,483,436		-		-
Total Shareholders' Equity	₩	6,074,371,743	₩	395,603,724	₩	13,664,703
Sales	₩	6,680,847,701	₩	480,473,746	₩	99,116,491
Operating income		854,130,206		56,268,281		2,033,597
Net income		567,395,746		51,626,631		1,806,837
Comprehensive income		510,029,182		49,255,546		1,679,395

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

(6) As of December 31, 2015 and 2014, adjustment from net assets to book value of related parties is as follows (Korean won in thousands):

	2015		
	Hankook Tire Co., Ltd.	Atlas BX Co., Ltd.	EmFrontier, Inc.
Net assets of associates	₩ 6,559,287,378	₩ 442,435,778	₩ 19,980,377
Share ratio	25.16%	31.13%	40.00%
Net assets	1,650,716,995	137,744,278	7,992,154
Goodwill and others	262,313,525	-	-
Final book value	1,913,030,520	137,744,278	7,992,154

	2014		
	Hankook Tire Co., Ltd.	Atlas BX Co., Ltd.	EmFrontier, Inc.
Net assets of associates	₩ 6,068,888,307	₩ 395,603,724	₩ 13,664,703
Share ratio	25.00%	31.13%	30.00%
Net assets	1,517,222,078	123,163,976	4,099,408
Goodwill and others	262,313,525	-	-
Final book value	1,779,535,603	123,163,976	4,099,408

9. PROPERTY, PLANT AND EQUIPMENT:

(1) Details of the carrying values of property, plant and equipment as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	December 31, 2015			
	Acquisition cost	Accumulated depreciation	Accumulated impairment losses	Carrying value
Land	₩ 10,546,728	₩ -	₩ -	₩ 10,546,728
Buildings	29,442,483	(11,418,199)	-	18,024,284
Structures	521,000	(177,231)	-	343,769
Vehicles	683,026	(683,024)	-	2
Tools, furniture and fixtures	725,227	(521,718)	-	203,509
Construction in progress	301,888	-	(301,888)	-
Total	₩ 42,220,352	₩ (12,800,172)	₩ (301,888)	₩ 29,118,292

	December 31, 2014		
	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩ 10,548,829	₩ -	₩ 10,548,829
Buildings	29,303,483	(10,413,605)	18,889,878
Structures	461,615	(161,207)	300,408
Vehicles	683,026	(648,789)	34,237
Tools, furniture and fixtures	661,440	(454,479)	206,961
Construction in progress	361,273	-	361,273
Total	₩ 42,019,666	₩ (11,678,080)	₩ 30,341,586

(2) Changes in property, plant and equipment for the four months ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

2015

	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 10,548,829	₩ -	₩ (2,101)	₩ -	₩ -	₩ 10,546,728
Buildings	18,889,878	-	-	(1,004,594)	139,000	18,024,284
Structures	300,408	-	-	(16,024)	59,385	343,769
Vehicles	34,237	-	-	(34,235)	-	2
Tools, furniture and fixtures	206,961	23,200	(1)	(68,585)	41,934	203,509
Construction in progress	361,273	180,934	-	-	(542,207)	-
Total	₩ 30,341,586	₩ 204,134	₩ (2,102)	` ₩ (1,123,438)	₩ (301,888)	₩ 29,118,292

2014

	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 10,548,829	₩ -	₩ -	₩ -	₩ -	₩ 10,548,829
Buildings	19,192,492	-	-	(1,001,119)	698,505	18,889,878
Structures	256,709	-	-	(13,301)	57,000	300,408
Vehicles	171,181	-	-	(136,944)	-	34,237
Tools, furniture and fixtures	10,692	-	(1)	(22,110)	218,380	206,961
Construction in progress	1,000,393	334,765	-	-	(973,885)	361,273
Total	₩ 31,180,296	₩ 334,765	₩ (1)	` ₩ (1,173,474)	₩ -	₩ 30,341,586

(3) Assets pledged as collateral

As of December 31, 2015, 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, 2015 and 2014, are as follows (Korean won in thousands):

December 31, 2015

	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩ 15,662,650	₩ -	₩ 15,662,650
Buildings	23,403,620	(13,532,090)	9,871,530
Total	₩ 39,066,270	₩ (13,532,090)	₩ 25,534,180

December 31, 2014

	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩ 15,662,650	₩ -	₩ 15,662,650
Buildings	23,403,620	(12,361,909)	11,041,711
Total	₩ 39,066,270	₩ (12,361,909)	₩ 26,704,361

(2) Changes in investment property for the four months ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015					
	Land		Buildings		Total	
Beginning balance	₩	15,662,650	₩	11,041,711	₩	26,704,361
Acquisition		-		-		-
Disposal		-		-		-
Depreciation		-		(1,170,181)		(1,170,181)
Others		-		-		-
Ending balance	₩	15,662,650	₩	9,871,530	₩	25,534,180

	2014					
	Land		Buildings		Total	
Beginning balance	₩	15,662,650	₩	12,211,892	₩	27,874,542
Acquisition		-		-		-
Disposal		-		-		-
Depreciation		-		(1,170,181)		(1,170,181)
Others		-		-		-
Ending balance	₩	15,662,650	₩	11,041,711	₩	26,704,361

(3) Details of income and expenditure for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015		2014	
Rental income	₩	4,530,229	₩	4,354,229
Training center income		2,223,899		2,149,177
Expenditure for operating activities		3,794,689		3,419,236

(4) Details of carrying value and fair value for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015		2014	
Carrying value	₩	25,534,180	₩	26,704,361
Fair value		95,428,526		90,623,806

11. INTANGIBLE ASSETS:

(1) Details of carrying value of intangible assets as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	December 31, 2015					
	Acquisition cost		Accumulated depreciation		Carrying value	
Industrial rights	₩	2,388,031	₩	(1,621,624)	₩	766,407
Other intangible assets		5,307,996		-		5,307,996
Construction in progress		2,902,253		-		2,902,253
Total	₩	10,598,280	₩	(1,621,624)	₩	8,976,656

	December 31, 2014					
	Acquisition cost		Accumulated depreciation		Carrying value	
Industrial rights	₩	2,180,505	₩	(1,299,289)	₩	881,216
Other intangible assets		5,541,884		-		5,541,884
Total	₩	7,722,389	₩	(1,299,289)	₩	6,423,100

(2) Changes in intangible assets for the four months ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015							
	Industrial rights		Other intangible assets		Construction in progress		Total	
Beginning balance	₩	881,216	₩	5,541,884	₩	-	₩	6,423,100
Acquisition		-		-		923,033		923,033
Disposal		-		-		(13,853)		(13,853)
Depreciation		(322,335)		-		-		(322,335)
Impairment		-		(233,888)		-		(233,888)
Others(*1)		207,526		-		1,993,073		2,200,599
Ending balance	₩	766,407	₩	5,307,996	₩	2,902,253	₩	8,976,656

(*1) During the period, other current assets (advance payment) account transfers to intangible assets ₩2,200,599 thousand.

	2014					
	Industrial rights		Other intangible assets		Total	
Beginning balance	₩	711,458	₩	4,980,362	₩	5,691,820
Acquisition				1,276,400		1,276,400
Disposal				(185,056)		(185,056)
Depreciation		(339,064)				(339,064)
Impairment				(529,822)		(529,822)
Others(*1)		508,822				508,822
Ending balance	₩	881,216	₩	5,541,884	₩	6,423,100

(*1) During the period, other current assets (advance payment) account transfers to intangible assets ₩508,822 thousand.

12. TRADE AND OTHER ACCOUNTS PAYABLE:

Details of trade and other accounts payable as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015		2014	
Other accounts payable	₩	5,214,914	₩	2,714,193
Accrued expenses		132,776		1,837,735
Dividends payable		65,873		65,514
Total	₩	5,413,563	₩	4,617,442

13. OTHER LIABILITIES:

Details of other liabilities as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015		2014	
Withholdings	₩	1,329,732	₩	2,051,440

14. RETIREMENT BENEFIT PLAN:

As of December 31, 2015, the last actuarial valuation of plan assets and defined benefit obligation was 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, 2015 and 2014, are as follows:

Description	December 31, 2015	December 31, 2014
Discount rate	3.40%	3.69%
Rate of expected future salary increase	6.99%	6.88%

(2) As of December 31, 2015 and 2014, amounts recognized in the statement of financial position related to retirement benefit obligation are as follows (Korean won in thousands):

	2015	2014
Present value of defined benefit obligation	₩ 15,583,429	₩ 9,722,134
Fair value of plan assets	(17,051,460)	(10,367,263)
Retirement benefit assets	₩ (1,468,031)	₩ 645,129)

(3) Changes in net defined benefit liabilities for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015		
Description	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liabilities
Beginning of the year	₩ 9,722,134	₩ (10,367,263)	₩ (645,129)
Current service cost	2,697,837	-	2,697,837
Interest expenses (income)	350,864	(344,144)	6,720
	3,048,701	(344,144)	2,704,557
Remeasurements:			
Return on plan assets	-	125,568	125,568
Actuarial gains arising from changes in demographic assumptions	155,498	-	155,498
Actuarial gains arising from changes in financial assumptions	426,272	-	426,272
Actuarial gains arising from experience adjustments and others	(987,596)	-	(987,596)
	(405,826)	125,568	(280,258)
Company contributions	-	(6,800,000)	(6,800,000)
Benefits paid	(1,240,239)	416,601	(823,638)
Others	4,458,659	(82,222)	4,376,437
End of the year	₩ 15,583,429	₩ (17,051,460)	₩ (1,468,031)

Description	2014 Present value of defined benefit obligations		Fair value of plan assets		Net defined benefit liabilities	
Beginning of the year	₩	7,799,371	₩	(10,261,598)	₩	(2,462,227)
Current service cost		1,919,051		-		1,919,051
Interest expenses (income)		348,866		(434,791)		(85,925)
		10,067,288		(10,696,389)		(629,101)
Remeasurements:						
Return on plan assets		-		137,717		137,717
Actuarial gains arising from changes in demographic assumptions		71,667		-		71,667
Actuarial gains arising from changes in financial assumptions		(69,324)		-		(69,324)
Actuarial gains arising from experience adjustments and others		(57,661)		-		(57,661)
		(55,318)		137,717		82,399
Benefits paid		(289,836)		191,409		(98,427)
End of the year	₩	9,722,134	₩	(10,367,263)	₩	(645,129)

The fair value of the plan assets consists 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 year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015		2014	
Current service cost	₩	2,697,837	₩	1,919,051
Interest cost		350,864		348,866
Expected return on plan assets		(344,144)		(434,791)
Total	₩	2,704,557	₩	1,833,126

(5) The sensitivity analyses below have been determined based on reasonably possible changes of the significant assumptions occurring as of December 31, 2015, while holding all other assumptions constant (Korean won in thousands).

Description	Effect on the net defined benefit liabilities as of December 31, 2015 Increase by 1%		Decrease by 1%	
Discount rate	₩	(1,237,793)	₩	1,486,951
Rate of expected future salary increase		1,468,348		(1,246,595)

15. PROVISIONS:

(1) Details of provisions as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Long-term debts for employees	₩ 222,740	₩ 169,026

(2) Changes in provisions for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015			
	Beginning balance	Transferred in	Use	Ending balance
Long-term debts for employees	₩ 169,026	₩ 70,222	₩ (16,508)	₩ 222,740

	2014			
	Beginning balance	Transferred in	Use	Ending balance
Long-term debts for employees	₩ 136,369	₩ 39,329	₩ (6,672)	₩ 169,026

16. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current
Foreign exchange forward liabilities	₩ 2,677,568	₩ -	₩ 429,313	₩ -
Rental deposits	265,000	8,701,060	-	8,893,925
Total	₩ 2,942,568	₩ 8,701,060	₩ 429,313	₩ 8,893,925

17. CAPITAL STOCK:

Details of capital stock as of December 31, 2015 and 2014, are as follows (Korean won in thousands, except per share and par value amounts):

	2015	2014
Authorized (shares)	250,000,000	250,000,000
Par value	₩ 500	₩ 500
Outstanding (shares):		
Ordinary share	93,020,173	93,020,173
Capital stock:		
Common stock	₩ 46,510,087	₩ 46,510,087

18. OTHER PAID-UP CAPITAL:

Details of other paid-up capital as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Paid-up capital in excess of par value	₩ 1,302,628,300	₩ 1,302,628,300
Other capital surplus	(11,092,609)	(11,092,609)
Loss from capital reduction	(4,629,719)	(4,629,719)
Total	₩ 1,286,905,972	₩ 1,286,905,972

As of December 31, 2015, the Company holds 1,325,089 ordinary shares in treasury, to stabilize the market price of its shares of stock, and records treasury stock as other paid-up capital. Further appropriation of them is not determined.

19. RETAINED EARNINGS AND DIVIDENDS:

(1) Details of retained earnings as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Legal reserve:		
Earned surplus reserve(*1)	₩ 13,758,306	₩ 10,958,306
Subtotal	13,758,306	10,958,306
Voluntary reserve:		
Reserve for revaluation (*2)	443,289,239	443,289,239
Dividend equalization reserve	60,000,000	60,000,000
Reserve for officer's retirement benefits	93,918,000	93,918,000
Other voluntary reserve	110,000,000	110,000,000
Subtotal	707,207,239	707,207,239
Unappropriated retained earnings	534,959,793	396,322,713
Total	₩ 1,255,925,338	₩ 1,114,488,258

(*1) The Commercial Law of the Republic of Korea requires the Company to maintain an appropriate 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 be used as financial resources of dividends, but it is allowed to be used only for capitalization or preservation of losses.

(2) Changes in retained earnings for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Beginning of the year	₩ 1,114,488,258	₩ 963,156,352
Net income	172,703,147	183,826,990
Dividend payments	(27,508,526)	(27,508,526)
Changes in retained earnings due to investments in associates accounted for using the equity method	(4,171,777)	(5,182,153)
Defined benefit plan remeasurements	280,259	(82,398)
Tax effect	133,977	277,993
End of the year	₩ 1,255,925,338	₩ 1,114,488,258

(3) Details of dividend payments as of December 31, 2015 and 2014, are as follows (Korean won, except per share):

	2015	2014
Outstanding shares issued (shares)	₩ 93,020,173	₩ 93,020,173
Treasury stocks (shares)	1,325,089	1,325,088
Dividend shares (shares)	91,695,084	91,695,085
Dividend per share	₩ 300	₩ 300
Total dividend	₩ 27,508,525,200	₩ 27,508,525,500

(4) Changes in retained earnings due to investments in associates accounted for using the equity method for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Beginning of the year	₩ (2,483,557)	₩ 2,440,543
Changes	(4,171,777)	(5,182,153)
Tax effect	201,799	258,053
End of the year	₩ (6,453,535)	₩ (2,483,557)

(5) Changes in defined benefit plan remeasurements for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Beginning of the year	₩ (40,959,304)	₩ (40,896,846)
Changes	280,259	(82,398)
Tax effect	(67,822)	19,940
End of the year	₩ (40,746,867)	₩ (40,959,304)

(6) Details of statement of appropriation of retained earnings for the year ended December 31, 2015 and 2014, are follows (Korean won):

STATEMENT OF APPROPRIATION OF RETAINED EARNINGS(*1)

	2015		2014	
1. RETAINED EARNINGS BEFORE APPROPRIATION (*2):		₩ 81,034,989,232		₩ 83,034,291,305
Earned surplus reserved	52,725,765,805		52,607,806,545	
Remeasurements on defined benefit plans	212,436,308		(62,457,999)	
Net income (*3)	28,096,787,119		30,488,942,759	
2. TRANSFER:		-		-
3. APPROPRIATION:		30,259,377,720		30,308,525,500
Legal reserves	2,750,852,520		2,800,000,000	
Cash dividends (Dividends per share (rate): ₩ 300 (60%) (2015) ₩ 300 (60%) (2014))	27,508,525,200		27,508,525,500	
4. UNAPPROPRIATED RETAINED EARNINGS TO BE CARRIED FORWARD TO SUBSEQUENT YEAR		₩ 50,775,611,512		₩ 52,725,765,805

(*1) Above statement of appropriation of retained earnings represent appropriation of retained earnings, except for subsidiaries' retained earnings before spin-off.

(*2) Retained earnings before appropriation before eliminating subsidiaries’ retained earnings before spin-off are as follows:

	2015		2014	
1. RETAINED EARNINGS BEFORE APPROPRIATION:		₩ 534,959,792,492		₩ 396,322,713,124
Earned surplus reserved	366,014,187,624		217,482,280,358	
Actuarial gains (losses)	212,436,308		(62,457,999)	
Net income of owners of the Company(*3)	172,703,147,138		183,826,990,244	
Changes in retained earnings due to investments in associates accounted for using the equity method	(3,969,978,578)		(4,924,099,479)	

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

	2015	2014
Net income of owners of the Company	₩ 172,703,147,138	₩ 183,826,990,244
Gain using equity method	(151,961,286,275)	(158,463,883,412)
Tax expense for affiliated company investment	7,354,926,256	5,125,835,927
Net income for appropriation	₩ 28,096,787,119	₩ 30,488,942,759

20. OTHER EQUITY:

(1) Details of other capital components as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Losses on valuation of AFS securities, net	₩ 1,512,351	₩ (1,051,129)
Equity changes due to investment securities accounted for using the equity method	(24,209,784)	(31,738,507)
Total	₩ (22,697,433)	₩ (32,789,636)

(2) Changes in losses on valuation of AFS securities for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Beginning of the year	₩ (1,051,129)	₩ (2,957,580)
Losses on valuation of AFS securities, net	3,381,900	2,515,107
Tax effect	(818,420)	(608,656)
End of the year	₩ 1,512,351	₩ (1,051,129)

(3) Changes in equity changes due to investment securities accounted for using the equity method for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Beginning of the year	₩ (31,738,507)	₩ (22,283,656)
Changes	7,911,820	(9,935,915)
Tax effect	(383,097)	481,064
End of the year	₩ (24,209,784)	₩ (31,738,507)

21. OPERATING REVENUE FROM CONTINUING OPERATIONS:

Operating revenue from continuing operations for the year ended December 31, 2015 and 2014, is as follows (Korean won in thousands):

	2015	2014
Rental sales	₩ 4,530,229	₩ 4,354,229
Training center revenue	49,503	59,340
SSC sales	20,183,023	17,457,246
Trademark right revenue	46,920,741	48,886,713
Dividend payments	1,863	42,505
Gains using equity method	151,961,286	158,463,883
Total	₩ 223,646,645	₩ 229,263,916

22. OPERATING EXPENSES FROM CONTINUING OPERATIONS:

Operating expenses from continuing operations for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Payroll	₩ 17,397,097	₩ 17,425,182
Provision for severance benefits	2,704,558	1,833,126
Utility expenses	849,108	909,829
Depreciation	2,615,954	2,682,719
Repair expenses	400,256	268,364
Supplies expenses	183,648	205,926
Taxes and dues	1,034,155	1,027,748
Insurance	222,455	168,570
Employee benefits	2,382,050	2,016,697
Travel expenses	711,069	811,404
Communication expenses	132,637	158,556
Service expenses	492,877	445,276
Fees and charges	6,564,614	5,876,002
Entertainment expenses	424,625	489,829
Publication expenses	384,162	369,214
Training expenses	1,350,167	1,756,863
Vehicles maintenance expenses	55,162	56,530
Advertisement expenses	3,614,145	3,720,935
Conference expenses	30,357	66,080
Miscellaneous expenses	537,251	744,558
Total	₩ 42,086,347	₩ 41,033,408

23. FINANCIAL INCOME:

(1) Details of financial income for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

		2015		2014
Interest revenue:				
Short-term financial assets	₩	7,215,352	₩	8,516,034
Trade and other accounts receivable		3,382,574		4,528,613
AFS financial assets		580,489		680,723
Subtotal		11,178,415		13,725,370
Gain on disposal of AFS securities		1,892		49,623
Gain on foreign exchange forward transaction		-		2,267,634
Gain on foreign currency transaction		160,351		534,171
Gain on foreign currency translation		3,233,121		1,982,260
Total	₩	14,573,779	₩	18,559,058

(2) Details of financial income by categories for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

		2015		2014
Loans and receivables	₩	10,597,926	₩	13,044,647
AFS financial assets		582,381		730,346
Designated hedge derivatives		-		2,267,634
Subtotal		11,180,307		16,042,627
Gain on foreign currency transaction from deposits in foreign currency		160,351		315,171
Gain on foreign currency transaction from short-term loans in foreign currency		-		219,000
Gain on foreign currency translation from deposits in foreign currency		1		20
Gain on foreign currency translation from short-term loans in foreign currency		1,049,120		990,000
Gain on foreign currency translation from long-term loans in foreign currency		2,184,000		992,240
Total	₩	14,573,779	₩	18,559,058

24. FINANCIAL EXPENSES:

Details of financial expenses for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

		2015		2014
Loss on disposal and evaluation of dealing securities, net	₩	-	₩	125,310
Impairment loss of AFS securities		1,554,088		-
Loss on foreign exchange forward transaction		4,688		180,387
Loss on valuation of foreign exchange forward contracts		5,067,941		2,705,337
Loss on foreign currency transaction from deposits in foreign currency		104,390		381,575
Loss on foreign currency transaction from short-term loans in foreign currency		-		1,497,000
Loss on foreign currency translation from deposits in foreign currency		2,123		10,542
Total	₩	6,733,230	₩	4,900,151

25. OTHER NON-OPERATING INCOME AND EXPENSE:

(1) Details of other non-operating income for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Gains on disposal of property, plant and equipment	₩ 93	₩ 588
Rental income	2,223,899	2,149,177
Miscellaneous income	74,446	81,390
Gain on foreign currency translation	-	879
Gain on foreign currency transaction	4,372	-
Fees received	-	35,200
Total	₩ 2,302,810	₩ 2,267,234

(2) Details of other non-operating expense for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015	2014
Loss on disposal of property, plant and equipment	₩ 1	₩ -
Impairment loss of property, plant and equipment	301,888	-
Loss on disposal of intangible assets	-	120,366
Impairment loss of intangible assets	233,888	529,822
Loss on foreign currency transaction	6,998	919
Loss on foreign currency translation	661	37
Miscellaneous expenses	73,216	60,362
Donation	3,011,400	1,300,000
Total	₩ 3,628,052	₩ 2,011,506

26. INCOME TAX EXPENSE FROM CONTINUING OPERATIONS:

Income tax expense for the year ended December 31, 2015 and 2014, is as follows (Korean won in thousands):

	2015	2014
Income tax from continuing operations	₩ 15,372,458	₩ 18,318,154

27. EARNINGS PER SHARE:

(1) The Company's basic and diluted earnings per share from continuing operations for the year ended December 31, 2015 and 2014, are computed as follows (Korean won):

	2015	2014
Net income from continuing operations for controlling interest	₩ 172,703,147,138	₩ 183,826,990,244
Dividends for preferred stock	-	-
Net income available for common shareholders	172,703,147,138	183,826,990,244
Weighted-average number of common shares outstanding(*2)	91,695,087 shares	91,695,087 shares
Basic and diluted earnings per share(*1)	₩ 1,883	₩ 2,005

(*1) Basic and diluted earnings per share are the same because there is no potentially dilutive common share issued by the Company
(*2) The Company's outstanding common shares minus the number of treasury stock acquired are weighted averaged.

28. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2015, 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., MK Technology Corp., Atlas BX Motorsports Co., Ltd.. Hankook Donggeurami Partners 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 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., Hankook Tire de Colombia Ltda., Hankook Tire America Holdings I, LLC, Hankook Tire America Holdings II, LLC, Hankook Tire Manufacturing Tennessee LP, Hankook Tire Ceska Republika s.r.o., MK Technology (CHONGQING) Mould Co., Ltd., PT. EMFRONTIER ENS Indonesia, EmFrontier America Inc.,
Domestic associates of associates	Hanon Systems Co., Ltd. (formerly Hanlla visteon Corp.)
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 year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

	2015			
Related parties	Sales	Operating expense	Other revenue	Other cost
Hankook Tire Co., Ltd.	₩ 69,305,707	₩ 88,827	₩ 1,016,162	₩ -
EmFrontier Inc.	750	132,967	-	-
Atlas BX Co., Ltd.	6,600	-	-	-
Shin-Yang Tourist Development	-	1,916,535	-	-
Shin-Yang World Leisure	-	-	5,814	-
MK Technology Corp.	250	-	-	-
Hankook Donggeurami Partners Co., Ltd.	-	23,705	-	-
Chongqing Hankooktire Co., Ltd.	-	-	3,382,574	-
Hankook Tire America Corp.	-	6,046	-	-
Hankook Tire Canada Corp.	-	96,969	-	-
Hankook Tire Europe GmbH	-	42,823	-	-
Hankook Tire Singapore PTE.,Ltd.	-	463	-	-
Total	₩ 69,313,307	₩ 2,308,335	₩ 4,404,550	₩ -

Related parties	2014 Sales		2014 Operating expense		2014 Other revenue		2014 Other cost	
Hankook Tire Co., Ltd.	₩	69,444,068	₩	89,631	₩	2,268	₩	-
EmFrontier Inc.		1,575		161,319		-		-
Atlas BX Co., Ltd.		5,675		-		-		-
Shin-Yang Tourist Development		-		1,867,332		-		-
Shin-Yang World Leisure		-		-		5,814		-
Chongqing Hankooktire Co., Ltd.		-		-		3,584,110		-
Jiangsu Hankook Tire Co., Ltd.		-		-		499,973		-
Hankook Tire China Co., Ltd.		-		-		444,530		-
Hankook Tire Japan Corp.		-		-		9,729		-
Hankook Tire Australia Pty., Ltd.		-		-		7,943		-
PT. Hankook Tire Indonesia		-		-		11,563		-
Hankook Tire Thailand Co., Ltd.		-		-		764		-
Hankook Tire Malaysia SDN.BHD.		-		-		2,420		-
Hankook Tire Singapore PTE., Ltd.		-		-		2,781		-
Hankook Tire Canada Corp.		-		102,781		-		-
Total	₩	69,451,318	₩	2,221,063	₩	4,571,895	₩	-

2) Outstanding balances of receivables and payables as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

a) Accounts receivable and others

	2015						2014					
	Accounts receivable		Long/ short loans		Other accounts receivable		Accounts receivable		Long/ short loans		Other accounts receivable	
Hankook Tire Co., Ltd.	₩	27,696,191	₩	-	₩	4,376,436	₩	25,491,994	₩	-	₩	173
EmFrontier Inc.		-		-		-		1,320		-		-
Hankook Tire Malaysia SDN.BHD.		-		-		-		-		-		2,420
Chongqing Hankooktire Co., Ltd.		-		92,213,800		269,652		-		88,980,680		324,208
Total	₩	27,696,191	₩	92,213,800	₩	4,646,088	₩	25,493,314	₩	88,980,680	₩	326,801

b) Accounts payable and others

	2015				2014			
	Accounts payable		Other payables		Accounts payable		Other payables	
Hankook Tire Co., Ltd.	₩	28,611	₩	1,834,952	₩	77,167	₩	1,834,952
EmFrontier Inc.		79,996		-		13,010		-
Shin-Yang Tourist Development		202,202		-		171,113		-
Shin-Yang World Leisure		-		105,503		-		96,792
Hankook Donggeurami Partners Co., Ltd.		23,705		-		-		-
Hankook Tire Canada Corp.		7,601		-		8,507		-
Hankook Tire Europe GmbH		807		-		-		-
Total	₩	342,922	₩	1,940,455	₩	269,797	₩	1,931,744

3) Loans to related parties for the year ended December 31, 2015 and 2014, are as follows (Korean won in thousands):

		2015				
Related parties	Loans	Beginning	Increase	Decrease	Change by exchange rate fluctuation	Ending
Chongqing Hankook Tire Co., Ltd.	Short-term	₩ 32,976,000	₩ -	₩ -	₩ 2,184,000	₩ 35,160,000
Chongqing Hankooktire Co., Ltd.	Long-term	56,004,680	-	-	1,049,120	57,053,800
Total		₩ 88,980,680	₩ -	₩ -	₩ 3,233,120	₩ 92,213,800

		2014				
Related parties	Loans	Beginning	Increase	Decrease	Change by exchange rate fluctuation	Ending
Chongqing Hankook Tire Co., Ltd.	Short-term	₩ 31,659,000	₩ 31,986,000	₩ (31,659,000)	₩ 990,000	₩ 32,976,000
Jiangsu Hankook Tire Co., Ltd.	Short-term	31,659,000	-	(31,659,000)	-	-
Hankook Tire China Co., Ltd.	Short-term	31,659,000	-	(31,659,000)	-	-
Chongqing Hankooktire Co., Ltd.	Long-term	55,012,440	-	-	992,240	56,004,680
Total		₩ 149,989,440	₩ 31,986,000	₩ (94,977,000)	₩ 1,982,240	₩ 88,980,680

4) The Company has provided guarantees with respect to financing by its overseas subsidiaries for the year ended December 31, 2015 and 2014. The remaining guarantees provided before spin-off were transferred to the new company, and the Company is severally and jointly liable for the remaining guarantees. The guarantees provided to the related parties, including overseas subsidiaries, are as follows (Korean won in thousands):

	Line of credit			
Unit	2015		2014	
	Foreign currency	Korean won	Foreign currency	Korean won
USD	130,000	₩ 152,360,000	200,000	₩ 219,840,000
EUR	-	-	164,854	220,331,257
HUF	15,881,000	64,794,480	16,097,000	68,412,250
Total		₩ 217,154,480		₩ 508,583,507

(*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, 2015 and 2014, are as follows (in thousands) (see Note 31):

	December 31, 2015			December 31, 2014		
Unit	Foreign currency		Korean Won	Foreign currency		Korean Won
USD	70,000	₩	82,040,000	70,000	₩	76,944,000
EUR	-		-	25,000		33,413,000
Total		₩	82,040,000		₩	110,357,000

5) Compensation for key management personnel for the year ended December 31, 2015 and 2014, is as follows (Korean won in thousands):

		2015		2014
Short-term benefits	₩	3,501,077	₩	5,429,953
Severance and retirement benefits		347,506		378,786
Total	₩	3,848,583	₩	5,808,739

29. CASH AND CASH EQUIVALENTS:

(1) Cash and cash equivalents consist of cash and bank deposit minus overdraft on the statement of cash flows. As of December 31, 2015 and 2014, cash and cash equivalents of the financial statements are calculated as follows (Korean won in thousands):

		2015		2014
Cash and bank deposit	₩	124,995,571	₩	211,798,689
Less: Overdraft		-		-
Cash and cash equivalents	₩	124,995,571	₩	211,798,689

(2) As of December 31, 2015 and 2014, the major transaction of non-cash investing and financial activities, not including cash flow statements, is as follows (Korean won in thousands):

		2015		2014
Transfer construction in progress into property	₩	240,319	₩	973,885
Transfer construction in progress into intangible assets		207,526		-
Transfer advance payments into intangible assets		2,200,599		508,823
Liquidity replacement of rental deposits		240,000		-
Transfer to/from associates		4,458,659		-

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, 2015 and 2014, is as follows (Korean won in thousands):

	2015	2014
Total liabilities	₩ 100,289,038	₩ 91,304,080
Total shareholders' equity	2,566,643,963	2,415,114,681
Debt ratio	3.91%	3.78%

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

(3) Categories of financial instruments as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

1) Financial Assets

		2015		2014	
Categories	Account	Book value	Fair value	Book value	Fair value
Derivative financial assets	Other financial assets	₩ -	₩ -	₩ 2,390,374	₩ 2,390,374
Financial assets AFS	AFS financial assets	22,561,651	22,561,651	20,733,839	20,733,839
Loans and receivables	Cash and cash equivalents	124,995,571	124,995,571	211,798,689	211,798,689
	Short-term financial assets	269,000,000	269,000,000	180,000,000	180,000,000
	Trade receivables	27,696,954	27,696,954	25,494,709	25,494,709
	Accounts receivable	4,473,805	4,473,805	180,681	180,681
	Accrued income	1,458,779	1,458,779	3,064,414	3,064,414
	Short-term loans	35,160,000	35,160,000	32,976,000	32,976,000
	Long-term loans	57,053,800	57,053,800	56,004,680	56,004,680
	Total	₩ 542,400,560	₩ 542,400,560	₩ 532,643,386	₩ 532,643,386

2) Financial Liabilities

Categories	Account	2015 Book value	2015 Fair value	2014 Book value	2014 Fair value
Derivatives designated as a hedging instrument	Foreign exchange Forward contracts	₩ 2,677,568	₩ 2,677,568	₩ 429,313	₩ 429,313
Financial liabilities at amortized cost	Accounts payable	5,214,914	5,214,914	2,714,192	2,714,192
	Dividends payable	65,873	65,873	65,514	65,514
	Accrued expenses	132,775	132,775	1,837,735	1,837,735
	Rental deposits	8,966,060	8,966,060	8,893,926	8,893,926
Total		₩ 17,057,190	₩ ₩ 17,057,190	₩ 13,940,680	₩ 13,940,680

(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 Company through internal risk reports that 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 directors. It provides 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 speculative purpose.

The finance department of the Company reports 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 risk 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, 2015 and 2014, are as follows (Korean won in thousands):

	2015 Assets	2015 Liabilities	2014 Assets	2014 Liabilities
USD	₩ 36,402,416	₩ 96,572	₩ 33,577,753	₩ 142,127
CNY	57,269,692		56,731,885	-
EUR	-	20,841	-	20,973
JPY	-	-	9,503	-
AUD	5	-	7,409	8,519
CAD	-	7,601	-	-

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, 2015, 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 intracompany loans to foreign operations denominated in currencies other 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):

	2015		2014	
	Profit or loss	Equity	Profit or loss	Equity
USD	₩ 3,630,584	₩ -	₩ 3,343,563	₩ -
CNY	5,726,969	-	5,673,189	-
EUR	(2,084)	-	(2,097)	-
JPY	-	-	950	-
AUD	1	-	(111)	-
CAD	(760)	-	-	-

Details of unpaid currency forward contracts for the year ended December 31, 2015 and 2014, are as follows (all currencies in thousands):

	December 31, 2015						
	Contract date	Expiry date	Contract sum	Contract rate	Strike amount	Fair value	Loss on valuation
Deutsche Bank AG	2013/5/27	2016/5/26	CNY 136,000	176.82	₩ 23,007,959	₩ 24,385,109	₩ (1,377,150)
	2013/5/28	2016/5/29	CNY 180,000	176.63	30,442,363	32,269,284	(1,826,921)
Standard Chartered	2015/3/3	2016/3/2	USD 30,000	1,111.50	33,345,000	35,208,871	(1,863,871)
Total					₩ 86,795,322	₩ 91,863,264	₩ (5,067,942)

	December 31, 2014						
	Contract date	Expiry date	Contract sum	Contract rate	Strike amount	Fair value	Loss on valuation
Deutsche Bank AG	2014/3/3	2015/3/3	USD 10,000	1,088.10	₩ 10,881,000	₩ 11,023,438	₩ (142,438)
	2013/5/27	2016/5/26	CNY 136,000	176.82	22,027,128	23,007,959	(980,831)
	2013/5/28	2016/5/29	CNY 180,000	176.63	29,147,170	30,442,363	(1,295,193)
Standard Chartered	2014/3/3	2015/3/3	USD 20,000	1,088.00	21,760,000	22,046,875	(286,875)
Total					₩ 83,815,298	₩ 86,520,635	₩ (2,705,337)

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 other variables are constant and the price of equity instrument and trading securities changes by 5%, the effect on comprehensive income as of December 31, 2015 and 2014, will be as follows (before tax effect, Korean won in thousands):

	2015	2014
AFS equity instruments	15,686	16,930

The price sensitivity of the Company indicated no significant change for the year ended December 31, 2015 and 2014.

3) Credit risk management

Credit risk refers to risk of financial losses to the Company when the counterparty 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 on their other financial information, sales figures and other factors posted publicly. The Company regularly monitors customers' credit ratings, checks 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, which 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):

	2015
Financial guarantee contracts	₩ 217,154,480

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 its short-, medium- and long-term funding and liquidity management requirements. The board of directors has a full responsibility of the liquidity 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, 2015 and 2014, is as follows (Korean won in thousands):

	2015			
	Within a year	1 year-5 years	After 5 years	Total
Interest-free:				
Accounts payable	₩ 5,214,914	₩ -	₩ -	₩ 5,214,914
Accrued expenses	132,775	-	-	132,775
Dividends payable	65,873	-	-	65,873
Rental deposits	265,000	8,701,060	-	8,966,060
Total	₩ 5,678,562	₩ 8,701,060	₩ -	₩ 14,379,622

	2014			
	Within a year	1 year-5 years	After 5 years	Total
Interest-free:				
Accounts payable	₩ 2,714,192	₩ -	₩ -	₩ 2,714,192
Accrued expenses	1,837,735	-	-	1,837,735
Dividends payable	65,514	-	-	65,514
Rental deposits	-	8,893,926	-	8,893,926
Total	₩ 4,617,441	₩ 8,893,926	₩ -	₩ 13,511,367

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, 2015 and 2014, is as follows (Korean won in thousands):

	2015			
	Within a year	1 year-5 years	After 5 years	Total
Interest-free:				
Trade receivables	₩ 27,696,954	₩ -	₩ -	₩ 27,696,954
Accounts receivable	4,473,805	-	-	4,473,805
Accrued income	1,458,779	-	-	1,458,779
Fixed-rate financial instrument:				
Cash and cash equivalents	124,995,571	-	-	124,995,571
Short-term financial assets	269,000,000	-	-	269,000,000
Loans	35,160,000	57,053,800	-	92,213,800
Financial assets AFS	533,796	2,066,955	19,960,900	22,561,651
Total	₩ 463,318,905	₩ 59,120,755	₩ 19,960,900	₩ 542,400,560

	2014			
	Within a year	1 year-5 years	After 5 years	Total
Interest-free:				
Trade receivables	₩ 25,494,709	₩ -	₩ -	₩ 25,494,709
Accounts receivable	180,681	-	-	180,681
Accrued income	3,064,414	-	-	3,064,414
Fixed-rate financial instrument:				
Cash and cash equivalents	211,798,689	-	-	211,798,689
Short-term financial assets	180,000,000	-	-	180,000,000
Loans	32,976,000	56,004,680	-	88,980,680
Financial assets AFS	558,676	2,004,763	18,170,400	20,733,839
Total	₩ 454,073,169	₩ 58,009,443	₩ 18,170,400	₩ 530,253,012

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 the floating interest rate change is off the track of estimation. As of the end of reporting period, the unused balance of outstanding credit facilities agreement is ₩14,950,011 thousand in 2015 (₩14,945,683 thousand in 2014). 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 on 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 month-3 months	3-12 months	After 1 year	Total
Net settlement:					
Currency forward contracts	₩ -	₩ (1,863,871)	₩ (813,697)	₩ -	₩ (2,677,568)

b) Financing arrangements

Details of the Company's financing arrangements as of December 31, 2015 and 2014, are as follows (Korean won in thousands):

Description		December 31, 2015	December 31, 2014
Purchase card agreements	Used	₩ 73,700	₩ 49,989
	Unused	9,926,300	9,950,011
	Subtotal	10,000,000	10,000,000
Bank overdraft agreements	Used	-	-
	Unused	5,000,000	5,000,000
	Subtotal	5,000,000	5,000,000
Foreign exchange forward contracts	Used	92,213,800	88,980,680
	Unused	-	-
	Subtotal	92,213,800	88,980,680
TOTAL	Used	92,287,500	89,030,669
	Unused	14,926,300	14,950,011
	Subtotal	₩ 107,213,800	₩ 103,980,680

(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. When 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 that are 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, 2015 and 2014, are as follows (Korean won in thousands):

	2015			
	Level 1	Level 2	Level 3	Total
Financial assets AFS:				
Marketable equity instruments	₩ 313,715	₩ -	₩ -	₩ 313,715
Nonmarketable debt instruments	-	22,027,855	-	22,027,855
Derivative instruments:				
Foreign exchange forward liabilities	-	(2,677,568)	-	(2,677,568)
Total	₩ 313,715	₩ 19,350,287	₩ -	₩ 19,664,002

	2014			
	Level 1	Level 2	Level 3	Total
Financial assets AFS:				
Marketable equity instruments	₩ 338,596	₩ -	₩ -	₩ 338,596
Nonmarketable debt instruments	-	20,175,163	-	20,175,163
Derivative instruments:				
Foreign exchange forward assets	-	2,390,374	-	2,390,374
Foreign exchange forward liabilities	-	(429,313)	-	(429,313)
Total	₩ 338,596	₩ 22,136,224	₩ -	₩ 22,474,820

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

There was no change in Level 3 financial assets for the year ended December 31, 2015, and changes for the year ended December 31, 2014, are as follows (Korean won in thousands):

	2014			
	Beginning balance	Net income	Disposals	Ending balance
Financial assets AFS:				
Nonmarketable debt instruments	₩ 2,000,000	₩ -	₩ (2,000,000)	₩ -

Nonmarketable equity instruments that 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, 2015, 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	₩	74,318,936	The Company
Movable All Risks (*2)	Other investments (paintings)		1,676,669	The Company
Total		₩	75,995,605	

(*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 due 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, 2015 and 2014, are as follows (all currencies in thousands):

Description	Financial institutions	Currencies	2015	2014
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	Standard Chartered	USD	30,000	30,000
contracts	Bank Korea and others	CNY	316,000	316,000
Total		KRW	15,000,000	15,000,000
		USD	30,000	30,000
		CNY	316,000	316,000

(3) Purchase agreement

As of December 31, 2015, the Company has a long-term contract with EmFrontier Inc., one of its affiliated companies, for maintenance service of the Company’s information system.

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, 2015. 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, 2015, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2015, 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 the 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 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 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, 2015, and we did not review its IACS subsequent to December 31, 2015. 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.

March 17, 2016

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 Committee 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 31,2015.

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 statement, for the purpose of preparing and established by the Korea Listed Companies Association for the assessment of design and operation of IACS.

Based on the assessment of the IACS, the company's ICAS has been appropriately designed and is operating effectively as of December 31, 2015, in all material respects.

March 2, 2016

Chae, Su Cheol
Internal Accounting Control Officer

Cho, Hyun Sik
Chief Executive Officer