

**Hankook Tire Co., Ltd.**  
**Separate Financial Statements**  
**December 31, 2017 and 2016**

**Hankook Tire Co., Ltd.**

Index

December 31, 2017 and 2016

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## Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

We have audited the accompanying financial statements of Hankook Tire Co., Ltd. (the Company), which comprise the statements of financial position as of December 31, 2017 and 2016 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

### Management's Responsibilities for the Financial Statements

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

### Auditor's Responsibilities

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

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

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



**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Hankook Tire Co., Ltd. as at December 31, 2017 and 2016, and its financial performance and cash flows for the years then ended in accordance with Korean IFRS.

**Other Matters**

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

Seoul, Korea  
March 16, 2018

This report is effective as of March 16, 2018, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Hankook Tire Co., Ltd.**  
**Separate Statements of Financial Position**  
**December 31, 2017 and 2016**

<i>(in thousands of Korean won)</i>	Notes	2017	2016
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	₩ 130,080,012	₩ 72,963,541
Short-term financial assets	6	-	94,181,814
Trade and other receivables	6,7,38	1,019,248,024	1,032,507,929
Inventories	8	342,250,881	349,874,862
Other financial assets	5,6,9	342,943,988	312,699,850
Other current assets	10	15,216,445	11,935,609
		<u>1,849,739,350</u>	<u>1,874,163,605</u>
<b>Non-current assets</b>			
Long-term financial assets	6	12,000	12,000
Available-for-sale financial assets	5,6,11	389,865	389,865
Investments in associates	12	1,061,740,386	1,061,740,386
Investments in subsidiaries	13	1,330,288,733	1,267,875,436
Property, plant and equipment	14	1,531,654,215	1,545,616,412
Investment properties	15	108,275,471	109,004,831
Intangible assets	16	42,559,322	33,232,398
Other financial assets	5,6,9	17,297,426	19,255,119
Other non-current assets	10	55,155,097	57,476,980
Net defined benefit Assets	22	11,690,944	-
Deferred tax Assets	32	7,168,152	-
		<u>4,166,231,611</u>	<u>4,094,603,427</u>
<b>Total assets</b>		<u>₩ 6,015,970,961</u>	<u>₩ 5,968,767,032</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	6,17,38	₩ 410,129,437	₩ 482,884,437
Borrowings	6,18	903,712,016	697,439,339
Current tax liabilities		27,041,249	83,525,356
Other provisions	19	37,423,072	41,642,810
Other financial liabilities	5,6,20	6,915,600	8,546,063
Other current liabilities	21	35,980,677	45,948,715
		<u>1,421,202,051</u>	<u>1,359,986,720</u>
<b>Non-current liabilities</b>			
Borrowings	6,18	249,675,443	499,724,432
Net defined benefit liabilities	22	-	13,496,153
Deferred tax liabilities	32	-	1,151,948
Provisions	19	15,588,344	20,408,794
Other financial liabilities	5,6,20	4,617,955	5,655,063
Other non-current liabilities	21	17,283,350	17,344,864
		<u>287,165,092</u>	<u>557,781,254</u>
<b>Total liabilities</b>		<u>1,708,367,143</u>	<u>1,917,767,974</u>
<b>Equity</b>			
Share capital	23	61,937,535	61,937,535
Other paid-in capital	24	2,457,107,991	2,457,107,991
Retained earnings	25	1,788,558,292	1,531,953,532
<b>Total equity</b>		<u>4,307,603,818</u>	<u>4,050,999,058</u>
<b>Total liabilities and equity</b>		<u>₩ 6,015,970,961</u>	<u>₩ 5,968,767,032</u>

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

**Hankook Tire Co., Ltd.**  
**Separate Statements of Comprehensive Income**  
**Years Ended December 31, 2017 and 2016**

<i>(in thousands of Korean won, except per share data)</i>	<b>Notes</b>	<b>2017</b>		<b>2016</b>	
<b>Sales</b>	26,35,38	₩	3,266,619,241	₩	3,312,163,223
<b>Cost of sales</b>	26,33,38		<u>(2,264,159,840)</u>		<u>(2,146,707,772)</u>
<b>Gross profit</b>			1,002,459,401		1,165,455,451
Selling and administrative expenses	27,33,38		(677,385,395)		(656,092,521)
Research and development expenses	33		<u>(162,230,742)</u>		<u>(151,544,769)</u>
<b>Operating profit</b>			162,843,264		357,818,161
Finance income	28		106,805,307		83,444,468
Finance costs	29		(92,511,032)		(117,369,770)
Other non-operating income	30,38		269,834,701		342,409,767
Other non-operating expense	31		<u>(108,907,097)</u>		<u>(99,457,728)</u>
<b>Profit before income tax</b>			338,065,143		566,844,898
Income tax expense	32		<u>(48,627,536)</u>		<u>(141,888,743)</u>
<b>Profit for the year</b>		₩	<u>289,437,607</u>	₩	<u>424,956,155</u>
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurements of net defined benefit liabilities	22		<u>16,708,225</u>		<u>(6,722,654)</u>
<b>Other comprehensive income for the year, net of tax</b>			<u>16,708,225</u>		<u>(6,722,654)</u>
<b>Total comprehensive income for the year</b>		₩	<u>306,145,832</u>	₩	<u>418,233,501</u>
<b>Earnings per share</b>					
Basic and diluted earnings per share	34	₩	2,337	₩	3,431

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

**Hankook Tire Co., Ltd.**  
**Separate Statements of Changes in Equity**  
**Years Ended December 31, 2017 and 2016**

(in thousands of Korean won)	Notes	Share capital	Other paid-in capital			Retained earnings	Total equity
			Share premium	Other share premium	Treasury shares		
<b>Balance as at January 1, 2016</b>		₩ 61,937,535	₩ 2,459,062,742	₩ (866,733)	₩ (1,088,018)	₩ 1,163,261,103	₩ 3,682,306,629
<b>Total comprehensive income for the year</b>							
Profit for the year		-	-	-	-	424,956,155	424,956,155
Remeasurements of net defined benefit liabilities		-	-	-	-	(6,722,654)	(6,722,654)
<b>Transactions with owners :</b>							
Annual dividends	25	-	-	-	-	(49,541,072)	(49,541,072)
<b>Balance as at December 31, 2016</b>		₩ 61,937,535	₩ 2,459,062,742	₩ (866,733)	₩ (1,088,018)	₩ 1,531,953,532	₩ 4,050,999,058
<b>Balance as at January 1, 2017</b>		₩ 61,937,535	₩ 2,459,062,742	₩ (866,733)	₩ (1,088,018)	₩ 1,531,953,532	₩ 4,050,999,058
<b>Total comprehensive income for the year</b>							
Profit for the year		-	-	-	-	289,437,607	289,437,607
Remeasurements of net defined benefit liabilities		-	-	-	-	16,708,225	16,708,225
<b>Transactions with owners :</b>							
Annual dividends	25	-	-	-	-	(49,541,072)	(49,541,072)
<b>Balance as at December 31, 2017</b>		₩ 61,937,535	₩ 2,459,062,742	₩ (866,733)	₩ (1,088,018)	₩ 1,788,558,292	₩ 4,307,603,818

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

**Hankook Tire Co., Ltd.**  
**Separate Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**

(in thousands of Korean won)

	Notes	2017	2016
<b>Cash flows from operating activities</b>			
Cash generated from operating activities			
Profit for the year		₩ 289,437,607	₩ 424,956,155
Adjustments	36	318,138,757	385,140,929
Changes in operating assets and liabilities	36	(140,441,713)	(241,257,079)
		<u>467,134,651</u>	<u>568,840,005</u>
Interest received		12,171,201	7,564,484
Interest paid		(31,759,022)	(24,490,515)
Income tax paid		(119,355,248)	(110,559,095)
Dividends received		<u>35,347,560</u>	<u>35,786,664</u>
<b>Net cash inflow from operating activities</b>		<u>363,539,142</u>	<u>477,141,543</u>
<b>Cash flows from investing activities</b>			
Net change in short-term financial assets		94,181,814	(62,169,950)
Net change in financial assets at fair value through profit or loss		-	40,000,000
Payments for available-for-sale financial assets		(140)	(20,910)
Proceeds from disposal of available-for-sale financial assets		32	20,121
Payments for investments in subsidiaries		(63,403,297)	(36,072,000)
Proceeds from disposal of investments in subsidiaries		921,287	-
Payments for property, plant and equipment	14	(235,735,892)	(286,418,185)
Proceeds from disposal of property, plant and equipment	14	4,161,963	9,969,634
Payments for investment properties	15	-	(353,509)
Payments for intangible assets	16	(6,062,315)	(14,276,227)
Settlement of derivatives		1,747,472	931,085
Payments for other financial assets		(375,023,480)	(152,869,330)
Proceeds from disposal of other financial assets		<u>340,853,136</u>	<u>156,290,411</u>
<b>Net cash outflow from investing activities</b>		<u>(238,359,420)</u>	<u>(344,968,860)</u>
<b>Cash flows from financing activities</b>			
Increase in short-term borrowings		149,813,475	(226,433,420)
Repayments of current portion of long-term borrowings		(36,415,000)	(160,000)
Repayments of long-term borrowings		(480,000)	-
Repayments of debentures		(130,425,000)	-
Return of bond issuance cost		-	30,549
Dividends paid	25	(49,541,072)	(49,541,072)
<b>Net cash outflow from financing activities</b>		<u>(67,047,597)</u>	<u>(276,103,943)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<u>58,132,125</u>	<u>(143,931,260)</u>
Cash and cash equivalents at the beginning of the financial year		72,963,541	216,889,941
Effects of exchange rate changes on cash and cash equivalents		(1,015,654)	4,860
<b>Cash and cash equivalents at the end of the year</b>		<u>₩ 130,080,012</u>	<u>₩ 72,963,541</u>

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



**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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**1. General Information**

Hankook Tire Co., Ltd. (the "Company") spun off from Hankook Tire Worldwide Co., Ltd. (formerly, Hankook Tire Co., Ltd.) on September 1, 2012 to manufacture and sell tires, tubes and alloy wheels. The Company's headquarters is located at Kangnam-Gu, Seoul, and two manufacturing factories are located in Daejeon and Kum-san. On October 4, 2012, the Company was relisted on the Korea stock exchange.

As at December 31, 2017 and 2016, the Company's shareholders are as follows:

	2017		2016	
	Number of shares	Percentage of ownership (%)	Number of shares	Percentage of ownership (%)
Hankook Tire Worldwide Co., Ltd.	37,162,521	30.00	31,174,527	25.16
Yang Rai Cho	7,019,903	5.67	13,007,897	10.50
Hyun Bum Cho	2,561,241	2.07	2,561,241	2.07
Hyun Shick Cho	799,241	0.65	799,241	0.65
Other <sup>1</sup>	76,332,163	61.62	76,332,163	61.62
	<u>123,875,069</u>	<u>100.00</u>	<u>123,875,069</u>	<u>100.00</u>

<sup>1</sup> Including 22,388 treasury shares as at December 31, 2017.

**2. Significant Accounting Policies**

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation**

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

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company's financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the

# Hankook Tire Co., Ltd.

## Notes to the Separate Financial Statements

### December 31, 2017 and 2016

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International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

Certain amounts in the financial statements as of and for the year ended December 31, 2015, have been reclassified to conform to the December 31, 2016 financial statement presentation. These reclassifications have no effect on previously reported net income or equity.

#### **2.2 Changes in Accounting Policies and Disclosures**

##### *(a) New and amended standards adopted by the Company*

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2017. The adoption of these amendments did not have any material impact on the financial statements.

##### *- Amendments to Korean IFRS 1007 *Statement of Cash Flows**

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows (Note 36).

##### *- Amendments to Korean IFRS 1012 *Income Tax**

Amendments to Korean IFRS 1012 clarify how to account for deferred tax assets related to debt instruments measured at fair value. Korean IFRS 1012 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

##### *- Amendments to Korean IFRS 1112 *Disclosures of Interests in Other Entities**

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

##### *(b) New standards and interpretations not yet adopted by the Company*

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

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

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

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

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

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

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

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

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

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#### - Enactment of Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*, Interpretation 2104 *Determining whether an Arrangement contains a Lease*, Interpretation 2015 *Operating Leases-Incentives*, and Interpretation 2027 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

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

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

#### *Lessee accounting*

A lessee shall apply this standard to its leases either:

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

The Company has not yet elected the application method.

The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The assessment was performed based on available information as at December 31, 2017 to identify effects on 2017 financial statements. The Company is analyzing the effects on the financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analyses is complete.

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## Notes to the Separate Financial Statements

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#### *Lessor accounting*

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

#### - Enactment of Korean IFRS 1109 *Financial Instruments*

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

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

Korean IFRS 1109 *Financial Instruments* requires three main areas including: (a) classification and measurement of financial assets on the basis of the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets, (b) a new impairment model of financial instruments based on the expected credit losses, and (c) hedge accounting including expansion of the range of eligible hedging instruments and hedged items that qualify for hedge accounting or change of a method of hedge effectiveness assessment.

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

With the implementation of Korean IFRS 1109, the Company is analyzing its impact on the financial statements. The following areas are likely to be affected in general.

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

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

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

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

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

With the implementation of Korean IFRS 1109, the criteria to classify the financial assets at amortized cost or at fair value through other comprehensive income are more strictly applied than the criteria applied with Korean IFRS 1039. Accordingly, the financial assets at fair value through profit or loss may increase by implementing Korean IFRS 1109 and may result an extended fluctuation in profit or loss.

As at December 31, 2017, the Company owns loans and receivables of ₩1,503,784,241 thousand, financial assets at fair value through profit or loss of ₩5,797,210 thousand and financial assets available-for-sales of ₩389,865 thousand.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2017, the Company measured loans and receivables of ₩1,503,784,241 thousand at amortized costs.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Company can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at December 31, 2017, the Company holds equity instruments of ₩ 389,865 thousand classified as financial assets available-for-sale and there is no recycled unrealized gain or loss arose from the equity instruments to profit or loss.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As at December 2017, the Company holds debt

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instruments classified as financial assets at fair value through profit or loss that amount to ₩5,797,210 thousand.

*(b) Classification and Measurement of Financial Liabilities*

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

Under Korean IFRS 1039, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, under Korean IFRS 1109, certain fair value movements will be recognized in other comprehensive income and as a result profit or loss from fair value movements may decrease.

As at December 31, 2017, total financial liabilities is ₩1,575,050,451 thousand of which ₩860,656 thousand are designated at fair value through profit or loss.

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

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

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

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

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

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losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

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

Under Korean IFRS 1109, the asset that is credit-impaired at initial recognition would recognize all changes in lifetime expected credit losses since the initial recognition as a loss allowance with any changes recognized in profit or loss.

As at December 31, 2017, the Company owns debt investment carried at amortized cost of ₩ 1,503,784,241 thousand (loans and receivables of ₩ 1,503,784,241 thousand). And, the Company recognized loss allowance of ₩ 1,838,133 thousand for these assets.

#### *(d) Hedge Accounting*

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

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

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

#### *- Enactment of Korean IFRS 1115 Revenue from Contracts with Customers*

Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 will be effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. This standard replaces Korean IFRS 1018 *Revenue*, Korean IFRS 1011 *Construction Contracts*, Interpretation 2031 *Revenue-Barter Transactions Involving Advertising Services*, Interpretation 2113 *Customer Loyalty Programs*, Interpretation 2115 *Agreements for the Construction of Real Estate* and Interpretation 2118 *Transfers of assets from customers*. The Company must apply Korean IFRS 1115 *Revenue from Contracts with Customers* within annual reporting periods beginning on or after January 1, 2018, and will elect the modified retrospective approach which will recognize the cumulative impact of initially applying the revenue standard as



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an adjustment to retained earnings as at January 1 2018, the period of initial application.

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

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

With the implementation of Korean IFRS 1115, the Company is organizing internal control process or modifying accounting system and analyzing its impact on the financial statements. The Company plans to perform detailed analysis on financial effects of applying the standard and disclose the result of the analysis in the notes on the financial statements as at March 31, 2018. The following areas are likely to be affected in general.

#### *(a) Identify performance obligation*

With the implementation of Korean IFRS 1115, the Company needs to identify performance obligations with a customer. The timing of revenue recognition depends on a performance obligation is satisfied at a point in time or over time. Where a performance obligation is satisfied over time, the related revenue is also recognized over time.

#### *(b) Variable consideration*

With implementation of Korean IFRS 1115, the Company estimates an amount of variable consideration by using the expected value which the Company expects to better predict the amount of consideration. The Company recognizes revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the refund period has lapsed. The refund liability is measured at the amount of consideration received for which the Company does not expect to be entitled.

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#### 2.3 Subsidiaries and Associates

The financial statements of the Company are the separate financial statements prepared in accordance with Korean IFRS 1027 *Separate Financial Statements*. Investments in subsidiaries, joint ventures and associates are recognized at cost under the direct equity method. Management applied the carrying amounts under the previous K-GAAP at the time of transition to the Korean IFRS as deemed cost of investments. The Company recognizes dividend income from subsidiaries, joint ventures and associates in profit or loss when its right to receive the dividend is established.

#### 2.4 Foreign Currency Translation

##### *(a) Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The separate financial statements are presented in Korean won, which is the Company's functional and presentation currency.

##### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized in other comprehensive income.

#### 2.5 Financial Assets

##### *(a) Classification and measurement*

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets, loans and receivables, and held-to-maturity financial assets. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value

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through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in profit or loss within other income or other expenses. Gains or losses arising from changes in the available-for-sale financial assets are recognized in other comprehensive income, and amounts are reclassified to profit or loss when the associated assets are sold or impaired.

*(b) Impairment*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Impairment of loans and receivables is presented as a deduction in an allowance account, and that of other financial assets is directly deducted from their carrying amount. The Company writes off financial assets when the assets are determined to be no longer recoverable.

The Company considers that there is objective evidence of impairment if significant financial difficulties of the debtor, or delinquency in interest or principal payments for more than certain periods is indicated. Moreover, in the case of equity investments classified as available-for-sale, a significant decline in the fair value of the security below its cost by more than certain percentage, or prolonged decline for more than certain periods is considered an objective evidence of impairment.

*(c) Derecognition*

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as "borrowings" in the statement of financial position.

*(d) Offsetting of financial instruments*

Financial assets and liabilities are offset and the net amount reported in the separate statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

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**2.6 Derivative Instruments**

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in profit or loss as 'other non-operating income (expenses)' or 'finance income (costs)' based on the nature of transactions.

**2.7 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the following method:

<b>Type of inventories</b>	<b>Costing method</b>
Finished goods and work in process	Weighted-average method
Raw materials, merchandise and supplies	Moving-weighted average method
Materials in transit	Specific identification method

**2.8 Property, Plant and Equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation of all property, plant and equipment, except for land, is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives as follows:

	<b>Useful lives</b>
Buildings	13 - 60 years
Structures	2~40
Machinery	2~18
Tools, furniture and fixtures	2~30
Vehicles	2~10
Molds	8

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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#### 2.9 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its 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. Other borrowing costs are expensed in the period in which they are incurred.

#### 2.10 Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants related to assets are presented in the statement of financial position either by deducting the grant in arriving at the carrying amount of the asset, and government grants related to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

#### 2.11 Intangible Assets

Intangible assets are initially recognized at its historical cost, and carried at cost less accumulated amortization and accumulated impairment losses.

Software development costs that are internally generated by the Company are recognized as intangible assets when the criteria including technical feasibility and probability of generating future economic benefits are met. Membership rights are regarded as intangible assets with indefinite useful life and not amortized because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Company amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	<b>Useful lives</b>
Industrial property rights	5 - 10 years
Other intangible assets	10

#### 2.12 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Company depreciates investment properties, except for land, using the straight-line method over their useful lives of 40 years.

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#### 2.13 Impairment of Non-financial Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

#### 2.14 Financial Liabilities

##### *(a) Classification and measurement*

The Company's financial liabilities at fair value through profit or loss are financial instruments held for trading. A financial liability is held for trading if it is incurred principally for the purpose of repurchasing in the near term. A derivative that is not a designated as hedging instruments and an embedded derivative that is separated are also classified as held for trading.

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost and present as 'trade payables', 'borrowings', and 'other financial liabilities' in the statement of financial position.

Preferred shares that require mandatory redemption at a particular date are classified as liabilities. Interest expenses on these preferred shares using the effective interest method are recognized in the statement of profit or loss as 'finance costs', together with interest expenses recognized from other financial liabilities.

##### *(b) Derecognition*

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified.

#### 2.15 Financial Guarantee Contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value, subsequently at the higher of the amount determined in accordance with Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less cumulative amortization in accordance with Korean IFRS 1018 *Revenue*, and recognized in the statement of financial position within 'other financial liabilities'.

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#### 2.16 Provisions

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period, and the increase in the provision due to the passage of time is recognized as interest expense.

The Company recognizes provision for future warranty claims and provision for litigations. These provisions are estimated based on warranty period provided, and past experience of it. When litigation or dispute regarding warranty has occur, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability, the Company recognizes the amount as provision.

#### 2.17 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis.

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#### 2.18 Employee Benefits

##### *(a) Post-employment benefits*

The Company operates both defined contribution and defined benefit pension plans.

For defined contribution plans, the Company pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Company has no further payment obligation once the contribution have been paid. The contribution are recognized as employee benefit expense when they are due.

A defined benefit plan is a pension plan that is not a defined contribution plan. Generally, post-employment benefits are payable after the completion of employment, and the benefit amount depended on the employee's age, periods of service or salary levels. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

##### *(b) Other long-term employee benefits*

Certain entities within the Company provide long-term employee benefits that are entitled to employees with service period for ten years and above. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. The Company recognizes service cost, net interest on other long-term employee benefits and remeasurements as profit or loss for the year. These liabilities are valued annually by an independent qualified actuary.

#### 2.19 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or rendering of services arising from the normal course of the business. Amounts disclosed as revenue are net of value added taxes, returns, rebates and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below. The Company bases its estimate on historical results, taking into consideration the type of customer, the type of transaction



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and the specifics of each arrangement.

#### *(a) Sale of goods*

The Company manufactures and sells a range of tires. Sales are recognized when control of the products has transferred, being when the products are delivered to the customer.

#### *(b) Rendering of services*

Revenue from rendering of 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.

#### *(c) Royalty income*

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreements.

#### *(d) Interest income*

Interest income is recognized using the effective interest method according to the time passed. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

#### *(e) Dividend income*

Dividend income is recognized when the right to receive payment is established.

#### *(f) Rental income*

Rental income from investment properties is recognized using the straight-line method over the period of rent.

## **2.20 Segment Reporting**

Information of each operating segment is reported in a manner consistent with the internal business segment reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

## **2.21 Approval of Issuance of the Financial Statements**

The separate financial statements 2017 were approved for issue by the Board of Directors on February 28, 2018 and are subject to change with the approval of shareholders at their Annual General Meeting.

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#### 3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### *(a) Income taxes*

The Company's taxable income generated from these operations are subject to income taxes based on tax laws and interpretations of tax authorities in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain (Note 32).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Company may be liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects.

##### *(b) Fair value of financial instruments*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 5).

##### *(c) Net defined benefit liability*

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 22).

##### *(d) Provisions*

The Company recognizes provision for future warranty claims and provision for litigations. These provisions are estimated based on past experience. (Note 19).

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**4. Financial Risk Management**

*(a) 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 separate financial statements. The Company is not subject to any externally imposed capital requirements.

The debt ratios as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Total liabilities	₩	1,708,367,144	₩	1,917,767,974
Total equity		4,307,603,818		4,050,999,058
Debt ratio		39.66%		47.34%

(b) The significant accounting policies and methods (including recognition, measurement and related gain and loss recognition) adopted for the Company's financial assets, financial liabilities and equity are detailed in Note 2. Financial instrument category for financial assets and financial liabilities at the end of the reporting period are detailed in Note 6.

*(c) 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, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The finance department of the Company manages operations, organizes the approach to financial market and controls the financial risks related to operations of the Company through internal risk reports, which analyze the scope and degree of each risk factor.

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

The finance department of the Company reports the details quarterly to Foreign Exchange Risk Management Committee that monitors 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.

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2) Market risk

The Company's activities are mainly exposed to financial risks of changes in currency and interest rates. The Company makes derivative contracts to manage the interest rate risk and foreign currency rate risk.

a) Foreign currency risk management

The Company is exposed to foreign exchange risk arising from foreign currency transactions. Currency exposures are managed within approved policy parameters by utilizing currency forward contracts.

The sensitivity analysis includes outstanding monetary items denominated in foreign currencies, and foreign exchange translations are adjusted based on assumption that Korean won has weakened/strengthened by 10% at the end of the reporting period. The sensitivity analysis includes monetary items denominated in foreign currencies.

The Company's financial assets and liabilities exposed to foreign currency risk as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 455,246,587	₩ 436,551,726	₩ 765,750,192	₩ 450,373,066
CNY	421,714,453	45,265	136,953,006	-
EUR	220,576,000	169,076,996	134,702,627	94,358,267
Others	195,475,075	182,779,642	184,289,673	178,341,469

A positive number below indicates an increase in profit and other equity where Korean won has strengthened by 10% against the relevant currency. For a 10% weakening of Korean won against the relevant currency, there would be an equal but negative impact on the profit and other equity:

<i>(in thousands of Korean won)</i>	2017	2016
USD <sup>1</sup>	₩ 1,869,486	₩ 27,912,213
CNY <sup>1</sup>	11,138,879	11,616,181
EUR	5,149,900	4,034,436
Others	1,269,543	594,820
	<u>19,427,808</u>	<u>44,157,650</u>

<sup>1</sup>The effects of derivatives contract as at December 31, 2017 and 2016 are included.

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In order to reduce the impact of changes in exchange rates on future cash flows, the Company entered into foreign currency forward contracts. The outstanding forward contracts as at December 31, 2017 are as follows;

<i>(in thousands of Korean won, and CNY)</i>	<u>Contract date</u>	<u>Due date</u>	<u>Buying Currency</u>	<u>Buying amount</u>	<u>Selling currency</u>	<u>Selling amount</u>
BNP Paribas	2017-06-20	2018-06-20	KRW	77,304,000	CNY	480,000
CITI Bank	2017-06-23	2018-06-25	KRW	51,002,400	CNY	316,000
Deutsche Bank	2017-06-26	2018-06-26	KRW	57,819,600	CNY	360,000
Credit Agricole	2017-08-11	2018-08-10	KRW	25,021,500	CNY	150,000
KB Bank	2017-08-29	2018-08-29	KRW	32,276,400	CNY	195,000
KDB	2017-08-29	2018-08-29	KRW	32,276,400	CNY	195,000
BNP Paribas	2017-11-15	2018-11-15	KRW	32,760,000	CNY	200,000
				<u>308,460,300</u>		<u>1,896,000</u>

For foreign currency forward contract, gains on valuation of derivatives amount to ₩ 3,424,427 thousand (2016: ₩ -) and losses on valuation of derivatives amount to ₩860,656 thousand (2016: ₩ 1,189,296 thousand) is recognized in profit or loss for the year ended December 31, 2017

b) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from the Company's investing and financing activities will fluctuate because of changes in market interest rate. In order to minimizing uncertainty caused by fluctuations in interest rates and minimizing finance costs, the Company monitors a fluctuation of domestic and foreign interest rates and establishes alternatives.

		<u>Impact on post-tax profit</u>		<u>Impact on equity</u>			
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>		
10 bp	Increase	₩	- ₩	(475,512)	₩	- ₩	(475,512)
	Decrease		-	475,512		-	475,512

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In order to reduce the impact of changes in interest rates, the Company entered into interest rate swap contracts. A summary of the terms of outstanding interest rate swap contracts as at December 31, 2017 is as follows:

<i>(in thousands of USD)</i>	<b>Contract date</b>	<b>Due date</b>	<b>Notional amount</b>	<b>Agreed interest rate(%)</b>	
				<b>Buy</b>	<b>Sell</b>
Bank of America	2016-12-13	2018-12-13	320,000	3M Libor	1.27%
Bank of America	2016-12-13	2019-06-13	80,000	3M Libor	1.33%
JP Morgan	2017-03-13	2020-02-13	50,000	1M Libor	1.75%
JP Morgan	2017-03-13	2020-03-13	50,000	1M Libor	1.78%
			500,000		

For interest rate swap contracts, gain on valuation of derivatives amount to ₩2,270,864 thousand (2016: ₩101,918 thousand) is recognized in profit or loss for the year ended December 31, 2017.

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.

3) Credit risk management

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

Credit ratings of trade receivables are evaluated constantly and credit guarantee contracts are made, if necessary. Except for the financial guarantee contracts, the maximum exposure to credit risk is not disclosed as the book amount of financial assets exposed to credit risk are the best presentation of the maximum exposure to credit risk. Company recognize assets and liabilities regarding these guarantee contracts. (Note 6)

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Financial guarantee contracts <sup>1</sup>	₩ 1,312,721,197	₩ 1,935,414,776

<sup>1</sup> The maximum exposure to financial guarantee contracts are the maximum payment amount, which is granted amount for guarantee contracts.

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Schedule of annual maturity information for guaranties provided by Company for its subsidiaries are as follows;

<i>(in thousands of Korean won)</i>	<b>Carrying amount</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Financial guarantee contracts	₩ 1,312,721,197	₩ 942,531,580	₩ 85,712,000	₩284,477,617	₩ -

4) Liquidity risk management

The Company has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Board of Directors has a full 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. Note 37 explains details of unused balances of credit facility agreements entered through the Company's discretion to reduce the liquidity risk.

a) Details of liquidity and interest rate risk

The table below discloses remaining contractual maturity of non-derivative financial liabilities in detail. The table below is prepared based on undiscounted cash flow of non-derivative financial liabilities. Contractual maturity is based on the earliest day when the payment can be claimed to the Company.

<i>(in thousands of Korean won)</i>	<b>2017</b>					
	<b>Book amount</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>Over 5 years</b>
Trade payables	₩ 196,835,555	₩ 196,835,555	₩ 196,835,555	₩ -	₩ -	₩ -
Non-trade payables	156,158,649	156,158,649	156,158,649	-	-	-
Accrued expenses	57,110,919	57,110,919	57,110,919	-	-	-
Dividends payable	24,314	24,314	24,314	-	-	-
Leasehold deposits received	4,074,943	4,074,943	2,753,000	1,281,943	40,000	-
Short-term borrowings	653,760,643	653,760,643	653,760,643	-	-	-
Debentures	499,626,816	512,933,334	256,429,167	5,575,000	250,929,167	-
	<u>₩ 1,567,591,839</u>	<u>₩ 1,580,898,357</u>	<u>₩ 1,323,072,247</u>	<u>₩ 6,856,943</u>	<u>₩ 250,969,167</u>	<u>₩ -</u>

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	2016					
	Book amount	Contractual cash flows	Within 1 year	Residual amount		
				1 to 2 years	2 to 5 years	Over 5 years
Trade payables	₩ 232,557,212	₩ 232,557,212	₩ 232,557,212	₩ -	₩ -	₩ -
Non-trade payables	198,793,428	198,793,428	198,793,428	-	-	-
Accrued expenses	51,514,312	51,514,312	51,514,312	-	-	-
Dividends payable	19,485	19,485	19,485	-	-	-
Leasehold deposits received	4,464,698	4,464,698	3,462,000	1,002,698	-	-
Short-term borrowings	530,643,180	530,643,180	530,643,180	-	-	-
Long-term borrowings	36,895,000	37,701,889	37,202,689	169,600	329,600	-
Debentures	629,660,010	656,216,581	142,396,581	256,854,375	256,965,625	-
	₩ 1,684,547,325	₩ 1,711,910,785	₩ 1,196,588,887	₩ 258,026,673	₩ 257,295,225	₩ -

As at December 31, 2017, gross settlement contracts consist of currency forward contract, which will be settled within 11 months. This contract is not included in above table and non-discounted contractual cash flow from the contract are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
Contractual cash inflow	₩	308,460,300	₩	55,216,200
Contractual cash outflow		305,896,529		56,405,036

## 5. Fair Value

### 5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets <sup>1</sup>				
At fair value through profit or loss	₩ -	₩ -	₩ -	₩ -
Financial derivative assets	5,797,210	5,797,210	101,918	101,918
Financial liabilities <sup>1</sup>				
Financial derivative liabilities	860,656	860,656	1,189,296	1,189,296

<sup>1</sup> Equity instruments that do not have a quoted price in an active market are measured at cost because their fair value cannot be measured reliably and excluded from the fair value disclosures.



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Financial assets including trade and non-trade receivables, and financial liabilities at amortized cost whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

**5.2 Financial Instrument Measured at Cost**

Details of financial instruments measured at cost as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Available-for-sale financial assets				
Unlisted securities <sup>1</sup>	₩	389,865	₩	389,865

<sup>1</sup> The unlisted securities stated in the table are measured at historical cost because they are issued by small and medium enterprises so that the variability of estimated cash flows is significant and the probability of the various estimates cannot be reasonably assessed.

**5.3 Fair value Hierarchy**

Items that are measured at fair value or for which the fair value is disclosed are categorized by the fair value hierarchy levels, and the defined levels are as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- All inputs other than quoted prices included in level 1 that are observable (either directly that is, prices, or indirectly that is, derived from prices) for the asset or liability (Level 2).
- Unobservable inputs for the asset or liability (Level 3).

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Financial derivative assets	₩	-	₩ 5,797,210	₩ 5,797,210
Financial derivative liabilities		-	₩ 860,656	₩ 860,656

<i>(in thousands of Korean won)</i>	<b>2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Financial derivative assets	₩	-	₩ 101,918	₩ 101,918
Financial derivative liabilities		-	₩ 1,189,296	₩ 1,189,296

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**5.4 Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements**

The Company's policy is to recognize transfers between levels of the fair value at the date of the event or change in circumstances that caused the transfer. There were no transfers between levels of each fair value hierarchy of financial instruments during the reporting period.

**5.5 Valuation Technique and the Inputs**

Valuation techniques and inputs used in level 2 fair value measurements are as follows:

		<b>2017</b>			
<i>(in thousands of Korean won)</i>	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>	
Financial derivative assets					
Interest rate swaps	₩ 2,372,783	2	Option pricing model	Underlying asset price, credit risk adjusted discount rate, underlying asset variability	
Currency forward contract	3,424,427	2	Discounted cash flow model	Discount rate	
Financial derivative liabilities					
Currency forward contract	860,656	2	Discounted cash flow model	Discount rate	
		<b>2016</b>			
<i>(in thousands of Korean won)</i>	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>	
Financial derivative assets					
Interest rate swaps	₩ 101,918	2	Option pricing model	Underlying asset price, credit risk adjusted discount rate, underlying asset variability	
Financial derivative liabilities					
Interest rate swaps	461	2	Option pricing model	Underlying asset price, credit risk adjusted discount rate, underlying asset variability	
Currency forward contract	1,188,835	2	Discounted cash flow model	Discount rate	

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**6. Financial Instrument by Category**

**6.1 Carrying Amounts of Financial Instruments by Category**

Categorizations of financial assets and liabilities as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

		<b>2017</b>		<b>2016</b>	
<b>Financial assets:</b>					
Available-for-sale financial assets	Available-for-sale financial assets	₩	389,865	₩	389,865
Derivatives	Financial derivative assets		5,797,210		101,918
Loans and receivables	Cash and cash equivalents		130,080,012		72,963,541
	Short-term financial assets		-		94,181,814
	Trade receivables		791,259,903		826,699,717
	Non-trade receivables		215,789,262		194,361,354
	Accrued income		12,198,859		11,446,858
	Deposits provided (current)		130,614		145,142
	Deposits provided (non-current)		7,727,349		8,437,515
	Short-term loans		334,759,797		308,659,941
	Long-term loans		5,228,489		6,063,320
	Long-term financial assets		12,000		12,000
	Financial guarantee contract assets (current)		3,301,944		3,894,767
	Financial guarantee contract assets (non-current)		3,296,012		4,652,366
		₩	<u>1,509,971,316</u>	₩	<u>1,532,010,118</u>

(in thousands of Korean won)

		<b>2017</b>		<b>2016</b>	
<b>Financial liabilities:</b>					
Derivatives	Financial derivative liabilities	₩	860,656	₩	1,189,296
Financial liabilities at amortized cost	Trade payables		196,835,555		232,557,212
	Non-trade payables		156,158,649		198,793,428
	Accrued expenses		57,110,919		51,514,312
	Dividends payable		24,314		19,485
	Borrowings (current)		-		73,107,035
	Borrowings (non-current)		-		36,895,000
	Debentures		499,626,816		629,625,590
	Leasehold deposits received(current)		2,753,000		3,462,000
	Leasehold deposits received (non-current)		1,321,943		1,002,698
	Financial guarantee contract liabilities (current)		3,301,944		3,894,767
	Financial guarantee contract liabilities (non-current)		3,296,012		4,652,366
Other financial liabilities <sup>1</sup>	Borrowings (current)		653,760,643		457,536,145
		₩	<u>1,575,050,451</u>	₩	<u>1,694,249,334</u>

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<sup>1</sup> Other financial liabilities relate to transfers of financial liabilities not qualify for derecognition that is not subject to categorization of financial liabilities

**6.2 Net Gains or Losses by Category of Financial Instruments**

Net gains or losses on each category of financial instruments for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Derivatives		
Gains or losses on valuation of derivatives	₩ 4,834,635	₩ (1,087,378)
Gains or losses on transaction of derivatives	2,936,769	950,019
Available-for-sale financial assets		
Interest income	1	9
Gains or losses on disposal	(108)	(789)
Loans and receivables		
Interest income	12,308,183	7,516,574
Gains or losses on foreign currency transaction	(54,504,408)	(18,286,592)
Gains or losses on foreign currency translation	(42,347,000)	41,494,701
Financial liabilities measured at amortized cost		
Interest expense	(12,327,138)	(13,229,891)
Gains or losses on foreign currency transaction	6,675,169	(3,888,986)
Gains or losses on foreign currency translation	1,956,563	(11,010,100)
Other financial liabilities		
Interest expense	(17,649,511)	(11,210,776)
Gains or losses on foreign currency transaction	23,007,521	12,407,244
Gains or losses on foreign currency translation	26,696,012	(20,047,279)
	<u>₩ (48,413,312)</u>	<u>₩ (16,393,244)</u>

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**7. Trade and Other Receivables**

Details of trade and other receivables as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>		
	<b>Gross amount</b>	<b>Less: Provision for impairment</b>	<b>Net amount</b>
Trade receivables	₩ 792,986,970	₩ (1,727,066)	₩ 791,259,903
Non-trade receivables	215,900,330	(111,067)	215,789,262
Accrued income	12,198,858	-	12,198,859
	<u>₩ 1,021,086,158</u>	<u>₩ (1,838,133)</u>	<u>₩ 1,019,248,024</u>

*(in thousands of Korean won)*

	<b>2016</b>		
	<b>Gross amount</b>	<b>Less: Provision for impairment</b>	<b>Net amount</b>
Trade receivables	₩ 828,300,220	₩ (1,600,503)	₩ 826,699,717
Non-trade receivables	194,496,188	(134,834)	194,361,354
Accrued income	11,446,858	-	11,446,858
	<u>₩ 1,034,243,266</u>	<u>₩ (1,735,337)</u>	<u>₩ 1,032,507,929</u>

Movements on the provision for impairment of trade receivables and other receivables for the years ended December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>		
	<b>Trade receivables</b>	<b>Non-trade receivables</b>	<b>Total</b>
Beginning balance	₩ 1,600,503	₩ 134,834	₩ 1,735,337
Impairment loss (reversal)	126,563	(25,533)	101,030
Write-offs (Collections)	-	1,766	1,766
Ending balance	<u>₩ 1,727,066</u>	<u>₩ 111,067</u>	<u>₩ 1,838,133</u>

*(in thousands of Korean won)*

	<b>2016</b>		
	<b>Trade receivables</b>	<b>Non-trade receivables</b>	<b>Total</b>
Beginning balance	₩ 1,485,320	₩ 347,785	₩ 1,833,105
Impairment loss (reversal)	159,634	72,731	232,365
Write-offs	(44,451)	(285,682)	(330,133)
Ending balance	<u>₩ 1,600,503</u>	<u>₩ 134,834</u>	<u>₩ 1,735,337</u>

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The aging analysis of the trade receivables as at December 31, 2017 and 2016, is as follows:

(in thousands of Korean won)

	<b>2017</b>		
	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Total</b>
Receivables not past due	₩ 779,060,731	₩ 226,809,994	₩ 1,005,870,725
Past due but not impaired :			
Below 3 months	9,164,409	875,413	10,039,822
4 to 6 months	1,555,933	240,285	1,796,218
Above 6 months	2,143,616	92,181	2,235,797
	<u>791,924,689</u>	<u>228,017,873</u>	<u>1,019,942,562</u>
Impaired	1,062,281	81,315	1,143,596
	<u>₩ 792,986,970</u>	<u>₩ 228,099,188</u>	<u>₩ 1,021,086,158</u>

(in thousands of Korean won)

	<b>2016</b>		
	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Total</b>
Receivables not past due	₩ 815,089,864	₩ 202,565,245	₩ 1,017,655,109
Past due but not impaired :			
Below 3 months	8,520,019	3,053,331	11,573,350
4 to 6 months	1,417,217	182,163	1,599,380
Above 6 months	1,569,240	51,822	1,621,062
	<u>826,596,340</u>	<u>205,852,561</u>	<u>1,032,448,901</u>
Impaired	1,703,879	90,486	1,794,365
	<u>₩ 828,300,219</u>	<u>₩ 205,943,047</u>	<u>₩ 1,034,243,266</u>

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**8. Inventories**

Details of inventories as at December 31, 2017 and 2016, and for the years ended December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	December 31, 2017			2017
	Acquisition cost	Inventory valuation	Inventory valuation allowance	Valuation loss (reversal)
Finished goods	₩ 141,130,457	₩ 136,459,653	₩ 4,670,804	₩ 1,045,789
Merchandise	12,417,821	12,104,939	312,882	138,474
Work in process	15,023,810	15,023,810	-	-
Raw materials	73,252,356	72,785,773	466,583	42,798
Supplies	6,675,284	6,675,284	-	-
Materials in transit	99,201,422	99,201,422	-	-
	<u>₩ 347,701,150</u>	<u>₩ 342,250,881</u>	<u>₩ 5,450,269</u>	<u>₩ 1,227,061</u>

*(in thousands of Korean won)*

	December 31, 2016			2016
	Acquisition cost	Inventory valuation	Inventory valuation allowance	Valuation loss (reversal)
Finished goods	₩ 157,302,615	₩ 153,677,600	₩ 3,625,015	₩ (844,738)
Merchandise	13,029,144	12,854,736	174,408	(17,497)
Work in process	14,503,604	14,503,604	-	-
Raw materials	77,306,392	76,882,607	423,785	(535,375)
Supplies	6,447,352	6,447,352	-	-
Materials in transit	85,508,964	85,508,964	-	-
	<u>₩ 354,098,071</u>	<u>₩ 349,874,863</u>	<u>₩ 4,223,208</u>	<u>₩ (1,397,610)</u>

The Company recognizes loss from inventory valuation and inventory shrinkage as expenses in the year in which the loss occurs. In addition, reversal of inventory write-downs due to an increase in the net realizable value of inventory assets is deducted from cost of sales recognized as an expense in the year in which the reversal occurs.

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**9. Other Financial Assets**

Details of other financial assets as at December 31, 2017 and 2016, are as follows:

*(in thousands of  
Korean won)*

	2017		2016	
	Current	Non-current	Current	Non-current
Loans <sup>1</sup>	₩ 334,759,796	5,228,489	₩ 308,659,941	₩ 6,063,320
Guarantee deposits provided	130,614	7,727,349	145,142	8,437,515
Financial derivative assets	4,751,634	1,045,576	-	101,918
Financial guarantee contract assets	3,301,944	3,296,012	3,894,767	4,652,366
	<u>₩ 342,943,988</u>	<u>17,297,426</u>	<u>₩ 312,699,850</u>	<u>₩ 19,255,119</u>

<sup>1</sup> The Company provides loans to its subsidiaries (Note 38).

**10. Other Assets**

Details of other assets as at December 31, 2017 and 2016, are as follows:

*(in thousands of  
Korean won)*

	2017		2016	
	Current	Non-current	Current	Non-current
Advance payments	₩ 715,319	54,656,498	₩ 599,756	₩ 57,169,274
Prepaid expenses	14,501,126	355,276	11,335,852	163,469
Others	-	143,323	-	144,237
	<u>₩ 15,216,445</u>	<u>55,155,097</u>	<u>₩ 11,935,608</u>	<u>₩ 57,476,980</u>



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**11. Available-for-sale Financial Assets**

Details of available-for-sale financial assets as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Equity instrument				
Unlisted securities	₩	389,865	₩	389,865

**12. Investment in Associates**

Details of the Company's investment in associates as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	Closing month	Location	Number of shares	Percentage of ownership (%)	<b>2017</b>	
					Acquisition cost	Book amount
Hanon Systems Co., Ltd. <sup>1</sup>	December	Korea	104,031,000	19.49	₩ 1,061,740,386	₩ 1,061,740,386

  

<i>(in thousands of Korean won)</i>	Closing month	Location	Number of shares	Percentage of ownership (%)	<b>2016</b>	
					Acquisition cost	Book amount
Hanon Systems Co., Ltd. <sup>1</sup>	December	Korea	104,031,000	19.49	₩ 1,061,740,386	₩ 1,061,740,386

<sup>1</sup> As at December 31, 2017, the fair value of marketable investment in associates is ₩1,446,030,900 thousand (2016: ₩1,071,519,300 thousand).

The table below provides summarized financial information for those associates that are material to the Company and received dividends from the associates.

<i>(in thousands of Korean won)</i>	<b>2017</b>						
	Assets	Liabilities	Equity <sup>1</sup>	Sales	Profit for the year	Total comprehensive income	Dividend received
Hanon Systems Co., Ltd.	₩4,133,390,581	₩2,090,959,189	₩2,042,431,392	₩5,582,423,807	₩309,872,150	₩328,301,754	₩31,209,300

  

<i>(in thousands of Korean won)</i>	<b>2016</b>						
	Assets	Liabilities	Equity	Sales	Profit for the year	Total comprehensive income	Dividend received
Hanon Systems Co., Ltd.	₩3,859,737,521	₩1,974,831,434	₩1,884,906,087	₩5,703,714,577	₩303,755,866	₩ 277,081,907	₩35,786,664

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**13. Investment in Subsidiaries**

Details of the Company's subsidiaries as at December 31, 2017, are as follows:

<b>Subsidiary</b>	<b>Main business</b>	<b>Location</b>
Daehwa Engineering & Machinery Co., Ltd.	Manufacture of tire and tube manufacturing machine	Korea
Hankook Tire America Corp.	Sales of tires	USA
Hankook Tyre U.K. Ltd.	Sales of tires	United Kingdom
Jiangsu Hankook Tire Co., Ltd.	Manufacture and sales of tires	China
Hankook Tire China Co., Ltd.	Manufacture and sales of tires	China
Hankook Tire Netherlands B.V.	Sales of tires	Netherlands
Hankook Tire Japan Corp.	Sales of tires	Japan
Hankook Tire Canada Corp.	Sales of tires	Canada
Hankook Reifen Deutschland GmbH	Sales of tires	Germany
Hankook Tire France SARL	Sales of tires	France
Hankook Espana S.A.	Sales of tires	Spain
Hankook Tyre Australia Pty., Ltd.	Sales of tires	Australia
Hankook Tire Europe Holdings B.V.	Building European governance	Netherlands
Hankook Tire DE Mexico, S.A. DE C.V.	Sales of tires	Mexico
Chongqing Hankooktire Co., Ltd.	Manufacture and sales of tires	China
PT. HANKOOKTIRE INDONESIA	Manufacture and sales of tires	Indonesia
MK Technology Co., Ltd.	Manufacture and sales of tire mold	Korea
Hankook Tire Singapore PTE., Ltd.	Trade and consulting	Singapore
Hankook Tire Malaysia SDN.BHD.	Sales of tires	Malaysia
Hankook Tire Thailand Co., Ltd.	Sales of tires	Thailand
Hankook Tire de Colombia Ltda.	Sales of tires	Colombia
Hankook Tires India LLP	Sales of tires	India
Hankook Tyre Australia Retail Pty.,Ltd.	Manufacture and sales of tires	Australia
Hankook Tire Latam, S.A.	Trade and consulting	Panama
Hankook Tire Latin America Distribution Center, S.A.	Sales of tires	Panama
Hankook Donggeurami Partners Co., Ltd.	Facilities management service, baking	Korea

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Details of the Company's investments in subsidiaries as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	December 31, 2017			
	Number of shares	Percentage of ownership (%)	Acquisition cost	Book amount
Daehwa Engineering & Machinery Co., Ltd.	380,000	95	₩ 1,900,000	₩ 1,900,000
Hankook Tire America Corp. <sup>4</sup>	35,600	100	197,054,823	197,054,823
Hankook Tyre U.K. Ltd.	25,000	100	30,649	30,649
Jiangsu Hankook Tire Co., Ltd.	1.2	34.67	71,170,379	71,170,379
Hankook Tire China Co., Ltd.	1.3	96.37	207,659,518	207,659,518
Hankook Tire Netherlands B.V.	1	100	1,738,031	1,738,031
Hankook Tire Japan Corp.	2,000	100	1,647,432	-
Hankook Tire Canada Corp.	50,000	100	30,950	30,950
Hankook Reifen Deutschland GmbH	1	100	126,995	126,995
Hankook Tire France SARL	1	100	1,601,630	1,601,630
Hankook Espana S. A.	1	100	76,873	76,873
Hankook Tyre Australia Pty., Ltd.	1	100	1,554,999	1,554,999
Hankook Tire Europe Holdings B.V.	390,253	100	240,408,421	240,408,421
Hankook Tire DE Mexico, S.A. DE C.V. <sup>3</sup>	9,999	99.99	330,339	-
Chongqing Hankooktire Co., Ltd.	1	100	232,293,000	232,293,000
PT. HANKOOKTIRE INDONESIA	270,999	99.99	296,226,785	296,226,785
MK Technology Co., Ltd. <sup>7</sup>	3,507,000	50.1	11,322,600	11,322,600
Hankook Tire Singapore PTE., Ltd.	1	100	1,118,960	1,118,960
Hankook Tire Malaysia SDN.BHD.	1,000,000	100	429,920	-
Hankook Tire Thailand Co., Ltd.	1,029,998	99.99	3,770,823	1,670,823
Hankook Tire de Colombia Ltda.	999	99.99	106,084	-
Hankook Tyre Australia Retail Pty.,Ltd. <sup>6</sup>	7,081,200	100	61,527,879	61,527,879
Hankook Tires India LLP <sup>6</sup>	10,000	99.99	1,482,073	1,482,073
Hankook Tire Latam, S.A. <sup>6</sup>	100	100.00	56,535	56,535
Hankook Tire Latin America Distribution Center, S.A. <sup>6</sup>	300	100.00	336,810	336,810
Hankook Donggeurami Partners Co., Ltd.	1,800,000	100	900,000	900,000
			₩ 1,334,902,508	₩ 1,330,288,733

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December 31, 2016

	Number of shares	Percentage of ownership (%)	Acquisition cost	Book amount
Daehwa Engineering & Machinery Co., Ltd.	380,000	95.00	₩ 1,900,000	₩ 1,900,000
Hankook Tire America Corp. <sup>4</sup>	35,600	100.00	197,054,823	197,054,823
Hankook Tyre U.K. Ltd.	25,000	100.00	30,649	30,649
Jiangsu Hankook Tire Co., Ltd.	<sup>1,2</sup>	34.67	71,170,379	71,170,379
Hankook Tire China Co., Ltd.	<sup>1,3</sup>	96.37	207,659,518	207,659,518
Hankook Tire Netherlands B.V.	1	100.00	1,738,031	1,738,031
Hankook Tire Japan Corp.	2,000	100.00	1,647,432	-
Hankook Tire Canada Corp.	50,000	100.00	30,950	30,950
Hankook Reifen Deutschland GmbH	1	100.00	126,995	126,995
Hankook Tire France SARL	1	100.00	1,601,630	1,601,630
Hankook Espana S. A.	1	100.00	76,873	76,873
Hankook Tyre Australia Pty., Ltd.	1	100.00	1,554,999	1,554,999
Hankook Tire Europe Holdings B.V.	390,253	100.00	240,408,421	240,408,421
Hankook Tire DE Mexico, S.A. DE C.V. <sup>3</sup>	9,999	99.99	330,339	-
Chongqing Hankooktire Co., Ltd.	1	100.00	232,293,000	232,293,000
PT. HANKOOKTIRE INDONESIA	270,999	99.99	296,226,785	296,226,785
MK Technology Co., Ltd.	3,507,000	50.10	11,322,600	11,322,600
Hankook Tire Singapore PTE., Ltd.	1	100.00	1,118,960	1,118,960
Hankook Tire Malaysia SDN.BHD.	1,000,000	100.00	429,920	-
Hankook Tire Thailand Co., Ltd.	1,029,998	99.99	3,770,823	1,670,823
Hankook Tire de Colombia Ltda.	999	99.99	106,084	-
Hankook Donggeurami Partners Co., Ltd.	1,800,000	100.00	900,000	900,000
HK Motors Co., Ltd. <sup>5</sup>	1,980,000	100.00	990,000	990,000
			₩ 1,272,489,211	₩ 1,267,875,436

<sup>1</sup> A certain subsidiaries did not issue a share certificate.

<sup>2</sup> The effective ownership through Hankook Tire America Corp. and Hankook Tire China Co., Ltd is 100%.

<sup>3</sup> The effective ownership through Hankook Tire America Corp. is 100%.

<sup>4</sup> For the year ended December 31, 2016, the Company additionally contributes to Hankook Tire America Corp., whose acquisition cost is ₩35,082,000 thousand.

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<sup>5</sup> The entity was established during the year ended December 31, 2016 and the entire interests in the entity was sold to HK AUTOMOTIVE CO., LTD., a subsidiary of Hankook Tire Worldwide Co., Ltd., a holding company, during the year ended December 31, 2017. Therefore, the entity was reclassified from the domestic subsidiary to the holding company's subsidiary.

<sup>6</sup> During the year ended December 31, 2017, Hankook Tire Australia Retail Pty., Ltd., Hankook Tires India LLP, Hankook Tire Latam, S.A. and Hankook Tire Latin America Distribution Center, S.A. are newly established.

**14. Property, Plant and Equipment**

Details of the book amount of property, plant and equipment as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>					
	<b>Acquisition cost</b>		<b>Accumulated depreciation</b>		<b>Book amount</b>	
Land	₩	257,304,432	₩	-	₩	257,304,432
Buildings		894,833,891		(246,302,423)		648,531,468
Structures		49,168,308		(25,663,521)		23,504,787
Machinery and equipment		1,921,082,763		(1,611,013,317)		310,069,446
Vehicles		32,785,805		(25,349,428)		7,436,377
Tools, furniture and fixtures		147,950,383		(111,782,281)		36,168,102
Molds		373,493,717		(242,651,826)		130,841,891
Machinery in transit		9,226,714		-		9,226,714
Construction in progress		108,570,998		-		108,570,998
	₩	3,794,417,011	₩	(2,262,762,796)	₩	1,531,654,215

*(in thousands of Korean won)*

	<b>2016</b>					
	<b>Acquisition cost</b>		<b>Accumulated depreciation</b>		<b>Book amount</b>	
Land	₩	257,304,432	₩	-	₩	257,304,432
Buildings		796,023,204		(223,606,749)		572,416,455
Structures		45,010,350		(23,976,427)		21,033,923
Machinery and equipment		1,885,592,287		(1,508,479,464)		377,112,823
Vehicles		32,768,555		(23,335,476)		9,433,079
Tools, furniture and fixtures		172,673,519		(115,617,728)		57,055,791
Molds		355,574,535		(228,078,001)		127,496,534
Machinery in transit		11,323,632		-		11,323,632
Construction in progress		112,439,743		-		112,439,743
	₩	3,668,710,257	₩	(2,123,093,845)	₩	1,545,616,412

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Changes in property, plant and equipment for the years ended December 31, 2017 and the 2016, are as follows:

(in thousands of Korean won)

	2017					Closing net book amount
	Opening net book amount	Acquisition	Disposal	Depreciation	Transfer <sup>1</sup>	
Land	₩ 257,304,432	₩ -	₩ -	₩ -	₩ -	₩ 257,304,432
Buildings	572,416,455	2,092,111	(32,875)	(23,259,909)	97,315,686	648,531,468
Structures	21,033,923	710,244	(21,319)	(1,692,845)	3,474,785	23,504,788
Machinery and equipment	377,112,823	28,994,313	(582,970)	(131,536,213)	36,081,493	310,069,446
Vehicles	9,433,079	721,459	(102,783)	(2,746,772)	131,393	7,436,376
Tools, furniture and fixtures	57,055,791	5,878,575	(807,833)	(17,548,686)	(8,409,745)	36,168,102
Molds	127,496,534	36,823,469	(3,182,554)	(30,207,123)	(88,435)	130,841,891
Machinery in transit	11,323,632	9,166,928	-	-	(11,263,846)	9,226,714
Construction in progress	112,439,743	126,003,215	(81,000)	-	(129,790,960)	108,570,998
	₩ 1,545,616,412	₩ 210,390,314	₩ (4,811,334)	₩ (206,991,548)	₩ (12,549,629)	₩ 1,531,654,215

<sup>1</sup> Construction in progress and machinery in transit consist of account transfers to property, plant and equipment of ₩140,753,371 thousand, account transfers to investment property of ₩301,435 thousand, account transfers from intangible asset of ₩2,743,355 thousand and account transfers to intangible asset of ₩14,991,549 thousand.

(in thousands of Korean won)

	2016					Closing net book amount
	Opening net book amount	Acquisition	Disposal	Depreciation	Transfer <sup>2</sup>	
Land	₩ 259,380,429	₩ 37,000	₩ (2,112,997)	₩ -	₩ -	₩ 257,304,432
Buildings	424,733,415	46,059,765	(2,069,085)	(19,439,615)	123,131,975	572,416,455
Structures	20,461,755	209,450	(14,468)	(1,789,993)	2,167,179	21,033,923
Machinery and equipment	410,197,102	55,778,389	(949,475)	(133,229,595)	45,316,402	377,112,823
Vehicles	11,100,959	1,276,348	(351,364)	(3,093,540)	500,676	9,433,079
Tools, furniture and fixtures	45,710,545	21,238,151	(1,291,925)	(17,709,741)	9,108,761	57,055,791
Molds	125,223,330	35,894,513	(3,767,988)	(29,853,321)	-	127,496,534
Machinery in transit	14,080,916	9,078,716	-	-	(11,836,000)	11,323,632
Construction in progress	190,018,600	91,767,857	(119,610)	-	(169,227,104)	112,439,743
	₩ 1,500,907,051	₩ 261,340,189	₩ (10,676,912)	₩ (205,115,805)	₩ (838,111)	₩ 1,545,616,412

<sup>2</sup> Construction in progress and machinery in transit consist of account transfers to property, plant and equipment of ₩178,592,632 thousand, account transfers to investment property of ₩2,470,471 thousand and account transfers from intangible asset of ₩1,632,361 thousand.

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Line items including depreciation in the statements of profit or loss for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Cost of sales	₩	163,861,356	₩	171,564,809
Selling and administrative expenses, including research and development cost		43,130,192		33,550,996
	₩	<u>206,991,548</u>	₩	<u>205,115,805</u>

Details of Capitalized borrowing costs for qualifying assets for the year ended December 31, 2017 and 2016, are as follows;

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Capitalized borrowing costs	₩	1,248,448	₩	5,840,374
Weighted average rate for capitalization (%)		2.47		3.22

**Pledged assets as collaterals**

As at December 31, 2017, a certain portion of the Company's property, plant and equipment (land, buildings and machinery) is pledged as collaterals for its credit line and others. The Company has entered into a property comprehensive insurance for its buildings (Note 37).

**15. Investment Properties**

Details of investment properties as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>					
	<b>Acquisition cost</b>		<b>Accumulated depreciation</b>		<b>Book amount</b>	
Land	₩	83,225,811	₩	-	₩	83,225,811
Buildings		41,858,244		(16,808,584)		25,049,660
	₩	<u>125,084,055</u>	₩	<u>(16,808,584)</u>	₩	<u>108,275,471</u>

  

<i>(in thousands of Korean won)</i>	<b>2016</b>					
	<b>Acquisition cost</b>		<b>Accumulated depreciation</b>		<b>Book amount</b>	
Land	₩	83,225,811	₩	-	₩	83,225,811
Buildings		41,557,313		(15,778,293)		25,779,020
	₩	<u>124,783,124</u>	₩	<u>(15,778,293)</u>	₩	<u>109,004,831</u>

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Changes in investment properties for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩83,225,811	₩ -	₩ -	₩ -	₩ -	₩83,225,811
Buildings	25,779,020	-	-	(1,030,795)	301,435	25,049,660
	<u>₩109,004,831</u>	<u>₩ -</u>	<u>₩-</u>	<u>₩ (1,030,795)</u>	<u>₩ 301,435</u>	<u>108,275,471</u>

<i>(in thousands of Korean won)</i>	2016					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 83,225,811	₩ -	₩ -	₩ -	₩ -	₩ 83,225,811
Buildings	23,964,606	353,509	-	(1,009,567)	2,470,472	25,779,020
	<u>₩107,190,417</u>	<u>₩ 353,509</u>	<u>₩ -</u>	<u>₩ (1,009,567)</u>	<u>₩ 2,470,472</u>	<u>₩ 109,004,831</u>

For the year ended December 31, 2017 and 2016, depreciations of investment property are included in selling and administrative expenses.

Fair value of investment properties as at December 31, 2017 is ₩ 241,752,000 thousand (2016: ₩ 232,020,042 thousand).

For the year ended December 31, 2017, rental income from investment property is ₩ 3,466,653 thousand (2016: ₩ 3,274,690 thousand), and operating expenses from property that generated rental income are ₩ 869,897 thousand (2016: ₩ 1,100,478 thousand).



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**16. Intangible Assets**

Details of intangible assets as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017					
	Acquisition cost		Accumulated amortization		Book amount	
Industrial rights	₩	12,992,289	₩	(10,512,223)	₩	2,480,066
Other intangible assets		91,724,636		(55,730,677)		35,993,959
Construction in progress		4,085,297		-		4,085,297
	₩	108,802,222	₩	(66,242,900)	₩	42,559,322

(in thousands of Korean won)

	2016					
	Acquisition cost		Accumulated amortization		Book amount	
Industrial rights	₩	12,014,803	₩	(9,506,543)	₩	2,508,260
Other intangible assets		66,489,806		(45,888,050)		20,601,756
Construction in progress		10,122,382		-		10,122,382
	₩	88,626,991	₩	(55,394,593)	₩	33,232,398

Changes in intangible assets for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017					
	Beginning balance	Acquisition	Disposal	Amortization	Others <sup>1</sup>	Ending balance
Industrial rights	₩2,508,260	₩517,774	₩ -	₩ (1,050,291)	₩504,324	₩2,480,066
Other intangible assets	20,601,755	2,982,361	-	(7,686,218)	20,096,060	35,993,959
Construction in progress	10,122,382	2,562,179	(247,075)	-	(8,352,190)	4,085,297
	₩33,232,398	₩6,062,315	₩ (247,075)	₩ (8,736,510)	₩12,248,194	₩42,559,322

<sup>1</sup> For the year ended December 31, 2017, construction in progress transferred to intangible assets were ₩5,608,835 thousand and transferred to property, plant and equipment were ₩2,743,355 thousand, and account transfer from property, plant and equipment were ₩14,991,549 thousand.

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<i>(in thousands of Korean won)</i>	2016					Ending balance
	Beginning balance	Acquisition	Disposal	Amortization	Others <sup>2</sup>	
Industrial rights	₩ 2,323,692	₩ 532,577	₩ -	₩ (974,882)	₩ 626,872	₩ 2,508,260
Other intangible assets	18,027,324	5,661,036	(688)	(4,275,792)	1,189,876	20,601,756
Construction in progress	5,712,010	8,082,614	(223,133)	-	(3,449,108)	10,122,382
	<u>₩ 26,063,026</u>	<u>₩ 14,276,227</u>	<u>₩ (223,821)</u>	<u>₩ (5,250,674)</u>	<u>₩ (1,632,360)</u>	<u>₩ 33,232,398</u>

<sup>2</sup> For the year ended December 31, 2016, construction in progress transferred to intangible assets were ₩1,816,748 thousand and transferred to property, plant and equipment were ₩1,632,361 thousand.

**17. Trade and Other Payables**

Details of trade and other payables as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Trade payables	₩ 196,835,555	₩ 232,557,212
Non-trade payables	156,158,649	198,793,428
Accrued expenses	57,110,919	51,514,312
Dividends payable	24,314	19,485
	<u>₩ 410,129,437</u>	<u>₩ 482,884,437</u>

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**18. Borrowings**

Details of borrowings as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
	Current	Non-current	Current	Non-current
Short-term borrowings	₩ 653,760,643	₩ -	₩ 530,643,180	₩ -
Long-term borrowings	-	-	36,415,000	480,000
Debentures	249,951,373	249,675,443	130,381,159	499,244,432
	<u>₩ 903,712,016</u>	<u>₩ 249,675,443</u>	<u>₩ 697,439,339</u>	<u>₩ 499,724,432</u>

Details of short-term borrowings as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	Lender	Annual interest rate(%)		
			2017	2016
Transfer of trade receivables <sup>1</sup>	Woori Bank and others	0.01 ~ 9.58	₩ 653,760,643	₩ 457,536,145
Usance	-	-	-	73,107,035
			<u>₩ 653,760,643</u>	<u>₩ 530,643,180</u>

<sup>1</sup> As transfer of trade receivables does not meet derecognition criteria, financial liabilities are recognized and secured by the Company's trade receivables.

Details of long-term borrowings as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	Lender	Annual interest rate(%)	Maturity date	2017		2016	
				Current	Non-current	Current	Non-current
Long-term borrowings in local currency	-	-	-	-	-	₩ 160,000	₩ 480,000
Long-term borrowings in foreign currency	-	-	-	-	-	36,255,000	-
				<u>-</u>	<u>-</u>	<u>₩ 36,415,000</u>	<u>₩ 480,000</u>

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Details of debentures as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	Issue date	Maturity date	Annual interest rate(%)	2017		2016	
				Current	Non-current	Current	Non-current
The 83-1st debentures	2015.03.12	2018.03.12	2.05	₩250,000,000	₩ -	₩ -	₩250,000,000
The 83-2nd debentures	2015.03.12	2020.03.12	2.23	-	250,000,000	-	250,000,000
The 81-2nd debentures	2012.02.21	2017.02.21	-	-	-	70,000,000	-
The 82nd debentures	2014.09.01	2017.09.01	-	-	-	60,425,000	-
Less: Discount on debentures				(48,627)	(324,557)	(43,841)	(755,568)
				<u>₩249,951,373</u>	<u>₩249,675,443</u>	<u>₩130,381,159</u>	<u>₩499,244,432</u>

**19. Provisions**

Changes in provisions for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017				
	Beginning balance	Additional provisions (reversal)	Used during the year	Exchange differences	Ending balance
Provision for product liabilities	₩ 9,668,000	₩ 3,939,204	₩ (8,560,963)	₩ (572,478)	₩ 4,473,763
Provision for product warranties	52,016,605	2,233,544	(6,251,350)	-	47,998,799
Other provisions	366,999	171,854	-	-	538,853
	<u>₩ 62,051,604</u>	<u>₩ 6,344,602</u>	<u>₩ (14,812,313)</u>	<u>₩ (572,478)</u>	<u>₩ 53,011,415</u>

<i>(in thousands of Korean won)</i>	2016				
	Beginning balance	Additional provisions (reversal)	Used during the year	Exchange differences	Ending balance
Provision for product liabilities	₩ 9,376,000	₩ -	₩ -	₩ 292,000	₩ 9,668,000
Provision for product warranties	53,193,271	(330,349)	(846,317)	-	52,016,605
Other provisions	397,460	(30,461)	-	-	366,999
	<u>₩ 62,966,731</u>	<u>₩ (360,810)</u>	<u>₩ (846,317)</u>	<u>₩ 292,000</u>	<u>₩ 62,051,604</u>

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**20. Other Financial Liabilities**

Details of other financial liabilities as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	2017		2016	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ 2,753,000	₩ 1,321,943	₩ 3,462,000	₩ 1,002,698
Financial guarantee contract liabilities	3,301,944	3,296,012	3,894,767	4,652,366
Financial derivative liabilities	860,656	-	1,189,296	-
	<u>₩ 6,915,600</u>	<u>₩ 4,617,955</u>	<u>₩ 8,546,063</u>	<u>₩ 5,655,064</u>

**21. Other Liabilities**

Details of other liabilities as at December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	2017		2016	
	Current	Non-current	Current	Non-current
Advance received	₩ 11,677,112	₩ -	₩ 14,877,136	₩ -
Withholdings	24,303,566	-	31,071,580	-
Long-term employee liabilities	-	17,283,351	-	17,344,863
	<u>₩ 35,980,678</u>	<u>₩ 17,283,351</u>	<u>₩ 45,948,716</u>	<u>₩ 17,344,863</u>

Changes in long-term employee liabilities for the years ended December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	2017			
	Beginning balance	Additional provisions	Used during the year	Ending balance
Long-term employee liabilities	₩ 17,344,863	₩ 1,265,215	₩ (1,326,727)	₩ 17,283,351

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	2016			
	Beginning balance	Additional provisions	Used during the year	Ending balance
Long-term employee liabilities	₩ 15,078,149	₩ 3,376,454	₩ (1,109,740)	₩ 17,344,863

**22. Net Defined Benefit Liability**

The Company has both defined contribution and defined benefit plans.

**22.1 Defined Benefit Plan**

The Company operates defined benefit pension plans for its employees with eligibility requirements. By applying the three-month average salary in the final work period service that the employee has been provided at the time of retirement, the employee has received a lump-sum payment under the scheme. Under the system, the Company is exposed to investment risk, interest rate risk and wage risk.

The most recent actuarial assessment of plan assets and defined benefit obligation was performed on December 31, 2017, by Mirae Asset Daewoo Co., Ltd. Present value of the defined benefit obligation, its related current service cost and past service cost have been measured by using the projected unit credit method.

Details of net defined benefit liabilities (assets) recognized in the statements of financial position as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)	2017		2016	
Present value of defined benefit obligations	₩	356,060,330	₩	361,624,837
Fair value of plan assets <sup>1</sup>		(367,751,274)		(348,128,684)
Net defined benefit liabilities (assets)	₩	(11,690,944)	₩	13,496,153

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Movements in the defined benefit liabilities and the fair value of plan assets for the years ended December 31, 2017 and 2016, are as follows:

*(in thousands of Korean won)*

	<b>2017</b>		
	<b>Present value of defined benefit obligations</b>	<b>Fair value of plan assets</b>	<b>Total</b>
Beginning balance	₩ 361,624,837	₩ (348,128,684)	₩ 13,496,153
Current service cost	52,225,169	-	52,225,169
Interest expense (income)	12,278,541	(11,310,066)	968,475
	<u>64,503,710</u>	<u>(11,310,066)</u>	<u>53,193,644</u>
Remeasurements:			
Return on plan assets (excluding amounts included in net interest)	-	4,828,966	4,828,966
Actuarial loss (gain) from change in demographic assumptions	(292,572)	-	(292,572)
Actuarial loss (gain) from change in financial assumptions	(17,366,604)	-	(17,366,604)
Actuarial loss (gain) from experience adjustments	(10,215,617)	-	(10,215,617)
	<u>(27,874,793)</u>	<u>4,828,966</u>	<u>(23,045,827)</u>
Employers' contributions	-	(45,000,000)	(45,000,000)
Benefit payments	(42,193,424)	31,858,510	(10,334,914)
Ending balance	<u>₩ 356,060,330</u>	<u>₩ (367,751,274)</u>	<u>₩ (11,690,944)</u>

*(in thousands of Korean won)*

	<b>2016</b>		
	<b>Present value of defined benefit obligations</b>	<b>Fair value of plan assets</b>	<b>Total</b>
Beginning balance	₩ 319,612,044	₩ (294,098,781)	₩ 25,513,263
Current service cost	52,571,923	-	52,571,923
Interest expense (income)	11,048,937	(9,607,273)	1,441,664
	<u>63,620,860</u>	<u>(9,607,273)</u>	<u>54,013,587</u>
Remeasurements:			
Return on plan assets (excluding amounts included in net interest)	-	3,175,929	3,175,929
Actuarial loss (gain) from change in demographic assumptions	(1,130,282)	-	(1,130,282)
Actuarial loss (gain) from change in financial assumptions	(866,731)	-	(866,731)
Actuarial loss (gain) from experience	7,690,019	-	7,690,019

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adjustments	5,693,007	3,175,929	8,868,936
Employers' contributions	-	(70,000,000)	(70,000,000)
Benefit payments	(26,837,310)	17,615,545	(9,221,765)
Others	(463,764)	4,785,896	4,322,132
Ending balance	₩ 361,624,837	₩ (348,128,684)	₩ 13,496,153

The significant actuarial assumptions used in defined benefit obligations assessment as at December 31, 2017 and 2016, are as follows:

<i>(In percentage, %)</i>	<b>2017</b>	<b>2016</b>
Discount rate	3.79%	3.44%
Salary growth rate	5.62%	5.70%

With holding all other assumptions constant, if significant actuarial assumptions vary within a reasonable range, the effects on the defined benefit obligations are as follows.

<i>(in thousands of Korean won)</i>	<b>2017</b>	
	<b>Increase</b>	<b>Decrease</b>
1% change of discount rate	₩ (35,482,547)	₩ 42,099,693
1% change of salary growth rate	41,689,614	(35,816,725)
<i>(in thousands of Korean won)</i>	<b>2016</b>	
	<b>Increase</b>	<b>Decrease</b>
1% change of discount rate	₩ (35,568,192)	₩ 42,291,643
1% change of salary growth rate	41,710,850	(35,782,668)

Amounts recognized in statements of comprehensive income regarding defined benefit pension plans for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Current service cost	₩ 52,225,169	₩ 52,571,923
Interest cost	968,475	1,441,664
	₩ 53,193,644	₩ 54,013,587



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Plan assets as at December 31, 2017 and 2016, consist of:

<i>(in thousands of Korean won)</i>	2017		2016	
	Amount	Composition	Amount	Composition
Debt instruments	₩ 354,764,049	96.5%	₩ 348,128,670	100.00%
Cash and cash equivalents	2,738,210	0.7%	14	0.00%
Properties	10,249,015	2.8%	-	-
	<u>₩ 367,751,274</u>	<u>100.0%</u>	<u>₩ 348,128,684</u>	<u>100.00%</u>

The Company reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2018, are ₩ 34,221,287 thousand.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2017, is as follows:

<i>(in thousands of Korean won)</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Pension benefits	₩ 21,094,674	21,682,336	78,331,418	822,133,236	₩ 943,241,664

The weighted average duration of the defined benefit obligation is 11.65 years.

## 22. 2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 1,772,437 thousand. (2016: ₩ 1,142,280 thousand)

## 23. Share Capital

Details of share capital as at December 31, 2017 and 2016, are as follows:

<i>(in Korean won, except for number of shares)</i>	2017	2016
Authorized (in shares)	250,000,000	250,000,000
Par value	500	500
Outstanding (in shares):		
Ordinary shares	123,875,069	123,875,069
Share capital: Ordinary shares	<u>₩ 61,937,534,500</u>	<u>₩ 61,937,534,500</u>

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**24. Other Paid-in Capital**

Details of other paid-in capital as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Share premium	₩	2,459,062,742	₩	2,459,062,742
Other capital surplus		(866,733)		(866,733)
Treasury shares <sup>1</sup>		(1,088,018)		(1,088,018)
	₩	<u>2,457,107,991</u>	₩	<u>2,457,107,991</u>

<sup>1</sup> During 2012, the Company acquired 22,388 treasury shares through a spin-off.

**25. Retained Earnings and Dividends**

Details of retained earnings as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Legal reserve:				
Surplus reserve	₩	<u>24,770,536</u>	₩	<u>19,816,429</u>
		24,770,536		19,816,429
Voluntary reserve:				
Dividend equalization reserve		50,000,000		40,000,000
Director's retirement bonus reserve		5,000,000		4,000,000
Voluntary reserve		<u>50,000,000</u>		<u>40,000,000</u>
		105,000,000		84,000,000
Unappropriated retained earnings		<u>1,658,787,756</u>		<u>1,428,137,103</u>
	₩	<u>1,788,558,292</u>	₩	<u>1,531,953,532</u>

Dividend distributed to the Company's ordinary shareholders amounted to ₩ 49,541,072 thousand (2016: ₩ 49,541,072 thousand) for the year ended December 31, 2016, was paid in 2017.

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Statements of retained earnings for the years ended December 31, 2017 and 2016, are as follows:

<i>(in Korean won)</i>	<b>2017</b>	<b>2016</b>
1. Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	₩ 1,352,641,923,516	₩ 1,009,903,601,680
Profit for the period	289,437,607,240	424,956,154,894
Remeasurements of net defined benefit liabilities	<u>16,708,224,606</u>	<u>(6,722,653,418)</u>
	<u>₩ 1,658,787,755,362</u>	<u>₩ 1,428,137,103,156</u>
2. Appropriation of retained earnings		
Dividend equalization reserve	₩ 10,000,000,000	₩ 10,000,000,000
Director's retirement bonus reserve	-	1,000,000,000
Voluntary reserve	11,000,000,000	10,000,000,000
Legal reserve	4,954,107,240	4,954,107,240
Cash dividends		
(Dividends per share: 2017: ₩400 (80%) 2016: ₩400 (80%))	<u>49,541,072,400</u>	<u>49,541,072,400</u>
	<u>₩ 75,495,179,640</u>	<u>₩ 75,495,179,640</u>
3. Unappropriated retained earnings to be carried forward to subsequent year	<u>₩ 1,583,292,575,722</u>	<u>₩ 1,352,641,923,516</u>

The appropriation of retained earnings for the year ended December 31, 2017, is expected to be appropriated at the shareholders' meeting on March 26, 2018. The appropriation date for the year ended December 31, 2016, was March 24, 2017.

**26. Sales and Cost of Sales**

Details of sales for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Sales of goods	₩ 3,263,204,780	₩ 3,309,066,059
Sale of finished goods	2,994,181,515	3,125,978,797
Sale of merchandise	315,616,248	255,315,172
Sale discount	(24,821,867)	(30,460,227)
Sales incentive	(21,771,116)	(41,767,683)
Rendering of services	3,414,461	3,097,164
Rental sales	2,690,325	2,573,589
Service sales	<u>724,136</u>	<u>523,575</u>
	<u>₩ 3,266,619,241</u>	<u>₩ 3,312,163,223</u>

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Details of cost of sales for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Cost of finished goods sold	₩ 1,987,361,911	₩ 1,924,584,726
Cost of merchandise sold	278,470,941	225,123,840
Custom duties reimbursed	(3,469,011)	(7,069,096)
Loss on valuation of inventories and others	1,795,999	4,068,302
	<u>₩ 2,264,159,840</u>	<u>₩ 2,146,707,772</u>

**27. Selling and Administrative Expenses**

Details of selling and administrative expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Salaries	₩ 74,459,361	₩ 77,423,791
Post-employment benefits	10,816,987	11,321,692
Service expenses	40,938,211	41,925,780
Employee welfare benefit	14,250,209	15,914,937
Utility expenses	1,538,199	1,643,999
Supplies expenses	1,264,963	3,256,882
Repairs expenses	3,529,125	4,788,293
Test expenses	2,628,404	2,287,294
Overseas branch maintenance expenses	3,965,153	4,074,810
Travel expenses	4,632,370	4,605,228
Training expenses	730,475	938,773
Communication expenses	868,567	890,238
Entertainment expenses	2,697,918	3,780,032
Vehicles maintenance expenses	1,830,736	2,048,930
Publication expenses	424,911	616,727
Commission fees	54,093,722	46,108,705
Rental expenses	6,462,333	6,525,685
Depreciation of property, plant and equipment	18,046,414	22,323,353
Depreciation of investment property	1,030,795	1,009,567
Amortization of intangible assets	7,162,930	3,759,756
Insurance	3,875,717	3,322,904
Taxes and dues	7,540,185	5,998,478
Impairment loss on receivables	126,563	159,634
Conference expenses	80,084	287,909
Brand loyalty expenses	48,715,063	47,868,091
SSC service fee	20,851,829	21,511,833
Travel and transportation expenses	39,255,024	38,590,120
Ship transportation expenses	108,268,809	99,859,150

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Advertising	176,607,125	161,261,238
Other export expenses	9,904,176	9,757,329
Packing charges	4,133,115	4,856,290
Sales damage expenses	6,172,747	6,746,518
Foreign market development expenses	131,657	242,525
Other expenses	351,518	386,030
	<u>₩ 677,385,395</u>	<u>₩ 656,092,521</u>

**28. Finance Income**

Details of finance income for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Interest income	₩ 12,308,184	₩ 7,516,583
Gains on valuation of derivatives	5,695,291	101,918
Gains on transaction of derivatives	4,143,118	-
Gains on foreign currency translation	26,873,344	11,127,574
Gains on foreign currency transaction	57,785,370	64,698,393
	<u>₩ 106,805,307</u>	<u>₩ 83,444,468</u>

**29. Finance Costs**

Details of finance costs for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Interest expense	₩ 29,976,649	₩ 24,333,755
Losses on disposal of available-for-sale financial assets	108	789
Losses on valuation of derivatives	860,656	1,189,296
Losses on transaction of derivatives	1,206,349	1,265,065
Losses on foreign currency translation	10,098,305	28,337,033
Losses on foreign currency transaction	50,368,964	62,243,832
	<u>₩ 92,511,032</u>	<u>₩ 117,369,770</u>

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**30. Other Non-operating Income**

Details of other non-operating income for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Royalty income	₩	152,542,824	₩	145,636,082
Dividend income		35,347,560		35,786,664
Commission income		34,045,126		32,396,962
Rental income		776,328		701,101
Gains on foreign currency transaction		39,660,666		69,519,198
Gains on foreign currency translation		2,365,901		35,872,429
Gains on disposal of property, plant and equipment		1,400,597		4,096,825
Gains on insurance settlements		32,883		6,410,525
Gains on transaction of derivatives		-		2,215,085
Other		3,662,816		9,774,895
	₩	<u>269,834,701</u>	₩	<u>342,409,766</u>

**31. Other Non-operating Expenses**

Details of other non-operating expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Donation	₩	1,268,500	₩	3,388,973
Losses on abandonment of inventories		406,910		-
Losses on foreign currency transaction		71,083,386		81,742,094
Losses on foreign currency translation		32,835,365		8,225,648
Losses on disposal of trade receivables		95,884		106,912
Losses on disposal of property, plant and equipment		2,389,860		4,786,771
Losses on disposal of intangible assets		-		688
Casualty loss		3,202		478,654
Provision for other allowance(reversal)		171,854		(30,461)
Other impairment loss(reversal)		(25,533)		72,731
Impairment loss on subsidiaries		68,713		-
Other		608,957		685,718
	₩	<u>108,907,098</u>	₩	<u>99,457,728</u>

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**32. Tax Expense and Deferred Tax**

Income tax expense for the years ended December 31, 2017 and 2016, consists of:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Current tax:				
Current tax on profit for the year	₩	100,994,453	₩	149,112,704
Adjustments in respect of prior years		(37,709,217)		1,399,428
Deferred tax:				
Origination and reversal of temporary differences		(8,320,099)		(10,769,671)
Income tax charged(credited) directly to equity		(6,337,602)		2,146,282
Income tax expense	₩	<u>48,627,535</u>	₩	<u>141,888,743</u>

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Company as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Profit before income tax expense	₩	<u>338,065,142</u>	₩	<u>566,844,898</u>
Tax calculated at statutory tax rates applicable to profits in the respective countries		<u>81,349,765</u>		<u>136,714,465</u>
Tax effects of:				
Income not subject to tax		(2,788,946)		(2,469,726)
Expenses not deductible for tax purposes		2,310,927		1,574,825
Adjustment in respect of prior years		(37,709,217)		1,399,428
Other		5,465,002		4,669,750
Subtotal		<u>(32,722,230)</u>		<u>5,174,277</u>
Income tax expense	₩	<u>48,627,536</u>	₩	<u>141,888,742</u>
Effective tax rate		<u>14.4%</u>		<u>25.0%</u>

The tax effect relating to components of other comprehensive income for the years ended December 31, 2017 and 2016, is as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>			<b>2016</b>		
	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>	<b>Before tax</b>	<b>Tax effect</b>	<b>After tax</b>
Remeasurements of net defined benefit liabilities	₩ 23,045,827	₩ (6,337,602)	₩ 16,708,225	₩ (8,868,936)	₩ 2,146,283	₩ (6,722,653)

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The analysis of deferred tax assets and liabilities as at December 31, 2017 and 2016, is as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 22,280,816	₩ 20,888,083
Deferred tax asset to be recovered within 12 months	<u>5,138,963</u>	<u>5,066,862</u>
	<u>27,419,779</u>	<u>25,954,945</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(20,239,283)	(26,928,154)
Deferred tax liability to be recovered within 12 months	<u>(12,343)</u>	<u>(178,739)</u>
	<u>(20,251,626)</u>	<u>(27,106,893)</u>
Deferred tax assets (liabilities), net	<u>₩ 7,168,152</u>	<u>₩ (1,151,948)</u>

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>			
	<b>Beginning balance</b>	<b>Statement of profit or loss</b>	<b>Other comprehensive income</b>	<b>Ending balance</b>
Property, plant and equipment	₩ (10,546,700)	₩ 11,775,768	₩ -	₩ 1,229,068
Inventories	1,022,016	476,808	-	1,498,824
Accrued income	(135,164)	122,604	-	(12,560)
Financial derivative assets and liabilities	(159,242)	812,220	-	652,978
Long term debts for employees	4,197,457	555,465	-	4,752,922
Other provisions	15,016,488	(438,349)	-	14,578,139
Net defined benefit liabilities	(121,509)	2,236,682	(6,337,602)	(4,222,429)
Accrued expenses	5,066,862	72,101	-	5,138,963
Advanced depreciation provision for non-depreciable assets	(15,493,272)	(1,717,049)	-	(17,210,321)
Advanced depreciation provision for depreciable assets	(294,928)	(10,034)	-	(304,962)
Gains and losses on foreign currency translation	(43,574)	43,790	-	216
Others	<u>339,618</u>	<u>727,696</u>	<u>-</u>	<u>1,067,314</u>
	<u>₩ (1,151,948)</u>	<u>₩ 14,657,702</u>	<u>₩ (6,337,602)</u>	<u>₩ 7,168,152</u>



**Hankook Tire Co., Ltd.**  
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<i>(in thousands of Korean won)</i>	2016			
	Beginning balance	Statement of profit or loss	Other comprehensive income	Ending balance
Property, plant and equipment	₩ (21,806,066)	₩ 11,259,366	₩ -	₩ (10,546,700)
Inventories	1,360,238	(338,222)	-	1,022,016
Accrued income	(161,053)	25,889	-	(135,164)
Financial derivative assets and liabilities	4,582	(163,824)	-	(159,242)
Long term debts for employees	3,648,912	548,545	-	4,197,457
Other provisions	15,237,949	(221,461)	-	15,016,488
Net defined benefit liabilities	442,734	(2,710,525)	2,146,282	(121,509)
Accrued expenses	2,581,656	2,485,206	-	5,066,862
Advanced depreciation provision for non- depreciable assets	(11,868,748)	(3,624,524)	-	(15,493,272)
Advanced depreciation provision for depreciable assets	(321,488)	26,560	-	(294,928)
Gains and losses on foreign currency translation	(1,333,147)	1,289,573	-	(43,574)
Others	292,813	46,805	-	339,618
	<u>₩ (11,921,618)</u>	<u>₩ 8,623,388</u>	<u>₩ 2,146,282</u>	<u>₩ (1,151,948)</u>

Details of unrecognized deductible temporary differences as deferred tax assets as at December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016	Remarks
Guarantee fee received and others	₩ 51,952,001	₩ 131,667,141	Uncertainty of realization of temporary differences

**Hankook Tire Co., Ltd.**  
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**33. Expenses by Nature**

Expenses by nature for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			
	Cost of sales	Selling and administrative expenses	Research and development expenses	Total
Changes in inventories:				
Finished goods	₩ (17,217,947)	₩ -	₩ -	₩ (17,217,947)
Merchandise	(749,798)	-	-	(749,798)
Work in process	520,206	-	-	520,206
Supplies	227,932	-	-	227,932
Raw materials	(4,096,833)	-	-	(4,096,833)
Purchase of raw materials and others	1,374,076,234	-	-	1,374,076,234
Employees benefits	406,989,585	99,526,558	81,392,793	587,908,936
Depreciation	163,861,356	18,046,415	25,083,778	206,991,549
Amortization	209,381	7,162,930	1,364,199	8,736,510
Commission fees	14,079,130	54,093,722	5,791,798	73,964,650
Others	326,260,594	498,555,770	48,598,174	873,414,538
	<u>₩ 2,264,159,840</u>	<u>₩ 677,385,395</u>	<u>₩ 162,230,742</u>	<u>₩ 3,103,775,977</u>

(in thousands of Korean won)

	2016			
	Cost of sales	Selling and administrative expenses	Research and development expenses	Total
Changes in inventories:				
Finished goods	₩ 8,687,056	₩ -	₩ -	₩ 8,687,056
Merchandise	(1,134,597)	-	-	(1,134,597)
Work in process	1,503,630	-	-	1,503,630
Supplies	1,017,130	-	-	1,017,130
Raw materials	(14,233,125)	-	-	(14,233,125)
Purchase of raw materials and others	1,231,726,962	-	-	1,231,726,962
Employees benefits	414,097,980	104,660,420	85,562,704	604,321,104
Depreciation	171,564,809	22,323,353	11,227,643	205,115,805
Amortization	243,076	3,759,756	1,247,842	5,250,674
Commission fees	13,247,042	46,108,705	5,523,479	64,879,226
Others	319,987,809	479,240,287	47,983,101	847,211,197
	<u>₩ 2,146,707,772</u>	<u>₩ 656,092,521</u>	<u>₩ 151,544,769</u>	<u>₩ 2,954,345,062</u>

**Hankook Tire Co., Ltd.**  
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**34. Earnings per Share**

The Company's basic and diluted earnings per share for the years ended December 31, 2017 and 2016, are computed as follows:

<i>(in Korean won)</i>	<b>2017</b>	<b>2016</b>
Profit for the year	₩ 289,437,607,240	₩ 424,956,154,894
Weighted-average number of ordinary shares outstanding (in shares) <sup>1</sup>	<u>123,852,681</u>	<u>123,852,681</u>
Basic and diluted earnings per share <sup>2</sup>	<u>₩ 2,337</u>	<u>₩ 3,431</u>

<sup>1</sup> Weighted average number of ordinary shares outstanding is calculated considering outstanding ordinary shares divided by outstanding period, excluding number of treasury shares.

<sup>2</sup> Basic and diluted earnings per share are the same because there is no potentially dilutive ordinary share issued by the Company.

**35. Operating Segment Information**

The Company has a single operating segment subject to Korean IFRS 1108 *Segment Reporting*; therefore, no operating segment information is disclosed.

Sales information by geographical regions for the years ended December 31, 2017 and 2016, are as follows:

	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>Ratio (%)</b>	<b>Amount</b>	<b>Ratio (%)</b>
North America	₩ 1,081,170,085	33.1%	₩ 1,148,153,551	34.7%
South and Central America	212,787,135	6.5%	168,237,152	5.1%
Asia, except Korea	375,310,631	11.5%	425,608,195	12.8%
Europe	603,240,096	18.5%	435,535,704	13.1%
Domestic	<u>994,111,294</u>	<u>30.4%</u>	<u>1,134,628,621</u>	<u>34.3%</u>
	<u>₩ 3,266,619,241</u>	<u>100.0%</u>	<u>₩ 3,312,163,223</u>	<u>100.0%</u>

There is no external customer, who contributes more than 10% of the Company's total revenue for the periods ended December 31, 2017 and 2016.

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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**36. Cash Generated from Operations**

Details of cash generated from operations for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Adjustments:		
Income tax expense	₩ 48,627,535	₩ 141,888,743
Interest income	(12,308,184)	(7,516,583)
Interest expense	29,976,649	24,333,755
Gains on foreign currency translation	(29,239,245)	(47,000,003)
Losses on foreign currency translation	42,933,670	36,562,681
Dividend income	(35,347,560)	(35,786,664)
Losses on disposal of available-for-sale financial assets	108	789
Gains on valuation of derivatives	(5,695,291)	(101,918)
Losses on valuation of derivatives	860,656	1,189,296
Gains on transaction of derivatives	(4,143,118)	(2,215,085)
Losses on transaction of derivatives	1,206,349	1,265,065
Gains on disposal of property, plant and equipment	(1,400,596)	(4,096,825)
Losses on disposal of property, plant and equipment	2,389,860	4,786,771
Casualty loss	-	476,254
Losses on disposal of intangible assets	-	688
Losses on disposal of trade receivables	95,884	106,912
Losses on inventory obsolescence	(39)	1,047
Losses on valuation of inventories(reversal)	1,227,061	(1,397,610)
Losses on abandonment of inventories	975,886	5,464,865
Impairment loss on trade receivables	126,563	159,634
Depreciation of property, plant and equipment	206,991,548	205,115,805
Depreciation of investment properties	1,030,795	1,009,567
Amortization of intangible assets	8,736,510	5,250,674
Sales damage expense (reversal)	6,172,748	(330,348)
Employee welfare benefit	1,265,215	1,694,429
Post-employment benefit	53,193,644	54,013,587
Other provisions (reversal)	171,854	(30,461)
Other impairment loss(reversal)	(25,533)	72,731
Impairment loss on subsidiaries	68,713	-
Miscellaneous losses	247,075	223,132
	<u>₩ 318,138,757</u>	<u>₩ 385,140,929</u>

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<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Changes in operating assets and liabilities:		
Increase in trade receivables	₩ (3,825,909)	₩ (51,424,927)
Increase in other receivables	(16,154,131)	(23,589,135)
Decrease in inventories	5,421,073	24,329,301
Decrease in other financial assets	724,695	494,357
Increase in other assets	(615,675)	(19,249,239)
Increase (decrease) in trade payables	(34,445,350)	18,334,170
Decrease in other payables	(9,714,668)	(124,502,922)
Decrease in provision	(14,812,313)	(274,032)
Decrease in other financial liabilities	(389,755)	(230,358)
Increase (decrease) in other liabilities	(11,294,765)	9,755,341
Payment of post-employment benefits	(42,193,425)	(27,301,075)
Increase in plan assets	(13,141,490)	(47,598,559)
	<u>₩ (140,441,713)</u>	<u>₩ (241,257,078)</u>

The principal non-cash transaction for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>	<b>2016</b>
Transfer of construction in progress and others to intangible assets and property, plant and equipment	₩ 149,406,996	₩ 184,512,212
Increase in non-trade payables in relation to acquisition of fixed assets	7,493,586	34,087,611
Payment of non-trade payables in relation to acquisition of fixed assets recognized in the prior year	34,087,611	59,165,607
Capitalized borrowing costs	1,248,448	5,840,374

Changes in liabilities arising from financial activities for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>Liabilities from financing activities</b>				
	<b>Short-term borrowings</b>	<b>Long-term borrowings</b>	<b>Debentures (current)</b>	<b>Debentures (Non-current)</b>	<b>Dividend payables</b>
At January 1, 2017	₩ 567,058,180	₩ 480,000	₩ 130,381,159	₩ 499,244,432	₩ 19,485
Exchange differences	(26,696,012)	-	-	-	-
Cash flows	113,398,475	(480,000)	(130,425,000)	-	(49,541,072)
Transfer	-	-	249,951,373	(249,951,373)	-
Amortization cost for debentures	-	-	43,841	382,384	-
Other(Declared)	-	-	-	-	49,545,902

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dividends)										
At December 31, 2017	₩	653,760,643	₩	-	₩	249,951,373	₩	249,675,443	₩	24,314

**37. Contingencies and Commitments**

**Pledged assets as collaterals**

As at December 31, 2017, a certain portion of the Company's land, buildings, machinery and equipment is pledged as collaterals for borrowings as follows:

<i>(in thousands of Korean won, USD)</i>	<b>Pledged assets</b>	<b>Pledged amounts</b>	
The Korea Development Bank and others	Land, buildings, machinery and equipment	KRW	260,140,000
		USD	153,200

Buildings, inventories, machinery and others are insured against a general liability insurance policy. The major insurance as at December 31, 2017, is as follows:

<i>(in thousands of Korean won)</i>	<b>Insured property</b>	<b>Insured amount</b>	<b>Beneficiary</b>
General liability insurance	Buildings and others	₩ 1,325,373,053	The Company
	Inventories	307,679,727	
	Machinery and others	5,227,898,634	
		<u>₩ 6,860,951,414</u>	

The beneficial interest of insurance for buildings and machinery is pledged as collateral for the Company's borrowings (The Korea Development Bank: ₩122,000,000 thousand and USD 110,000 thousand; Woori Bank: ₩138,140,000 thousand and USD 43,200 thousand).

The Company is insured against potential future claims that may occur under the Product Liability Act in the Republic of Korea that was effective since July 1, 2002, which penalizes a manufacturer or seller when a product is defective and causes injury or damage to a person or property. The Company recognizes the best estimate amounting to ₩4,473,763 thousand, which is expected to be paid, as provision for product liabilities.

For the purpose of providing tires, in India, the Company provided a payment guarantee to Bureau of Indian Standards through Shinhan Bank New Delhi branch for up to USD 10,000.

**Transfer of financial assets**

Financial assets and associated liabilities that are transferred, but not derecognized entirely, at the end of the reporting period, are as follows:

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<i>(in thousands of Korean won)</i>		<b>2017</b>		<b>2016</b>
Carrying amount of assets	₩	653,760,643	₩	457,536,145
Carrying amount of the associated liabilities		653,760,643		457,536,145

**Purchase agreement**

At the end of the reporting period, the Company has purchase agreements on raw rubber materials with several suppliers including Southland, which are usually renewed annually. In addition, at the end of the reporting period, the Company has a long-term contract with EmFrontier Inc., one of its related parties, to be provided with maintenance service for the Company's information system.

**Financing arrangements**

Details of the Company's financing arrangements at the end of the reporting period, are as follows:

<i>(in thousands of Korean won)</i>		<b>2017</b>		<b>2016</b>
Credit line agreements on discount trade	Used	₩ 1,082,422,359	₩	721,183,808
receivable in foreign currencies and others <sup>1</sup>	Unused	1,237,221,841		1,528,557,060
		<u>₩ 2,319,644,200</u>	<u>₩</u>	<u>2,249,740,868</u>

<sup>1</sup> The Company may enter into bills total outstanding line of credit enable to bills bought and usance L/C transactions for up to USD 10,000 thousand with Standard Chartered Bank and for up total outstanding line of credit of USD 200,000 thousand with KB Kookmin Bank.

Seoul Guarantee Insurance Co., Ltd. has provided guarantee amount to ₩962,596 thousand (2016: ₩872,413 thousand) for performance guarantee and others.

The Company provide guarantee for its subsidiaries amount to ₩1,312,721,197 thousand (2016: ₩1,935,414,776. (Note 38)

**Pending litigations**

As at December 31, 2017, the Company has two pending lawsuits in relation to overtime charges and related additional wage claims amounting to ₩3,290,884 thousand in total with current or retired employees, and the lawsuits are in process of third trial. As a result of second trial, the Company recognized the principal obligated for the payment as other provisions amounting to ₩538,853 thousand, and this amount is subject to change as a result of litigation. The final obligated amount can be differ from its estimates, depending on the outcome of litigation.

Additionally, the Company has outstanding cases as a defendant or as a plaintiff. The management believes that the outcome of these cases will not have a significantly impact on the Company's financial position.

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**Coinvestment agreement of shares acquisition**

The Company acquired 20,806,200 shares of Hanon Systems Co., Ltd.(19.49% of ownership) from VIHI LLC, the largest shareholder of Hanon Systems Co., Ltd.

a) Details of Shares Purchase Agreement

- Seller: Visteon Corp. and VIHI LLC
- Purchaser: Hahn & Co. Auto Holdings LLC and Hankook Tire Co., Ltd.
- Contract date: 2014.12.17
- Closing date of deal: 2015.06.10
- Number of shares purchased per purchaser
  - (i) Hahn & Co. Auto Holdings LLC: 53,913,800 shares (50.50% of ownership)
  - (ii) Hankook Tire Co., Ltd.: 20,806,200 shares (19.49% of ownership)

b) Contract between shareholders

The purchasers entered into a contract between shareholders that includes the Parent Company's right of first refusal, Hahn & Co. Auto Holdings LLC's drag-along right and the Parent Company's tag-along right.

**38. Related Party Transactions**

Details of related parties as at December 31, 2017, are as follows:

Type	Name of related parties
Individuals	Yang-Rai Cho, Hyun-Shick Cho, Hyun-Bum Cho
Holding company <sup>1</sup>	Hankook Tire Worldwide Co., Ltd.
Holding company's subsidiaries and associates	Atlas BX Co., Ltd., Atlas BX Motorsports Co., Ltd., Atlasbx America Corporation, HK Automotive Co., Ltd., Flying Motors Co., Ltd., HK Motors Co., Ltd., <sup>3</sup> EmFrontier Inc., Emfrontier America Inc., PT. EMFRONTIER ENS Indonesia
Domestic subsidiaries	Daehwa Engineering & Machinery Co., Ltd., MK Technology Corp., Hankook Donggeurami Partners Co., Ltd.
Overseas subsidiaries	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. HANKOOKTIRE 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 Lastikleri A.S., Hankook Tire Polska Sp. z o.o., Hankook Tire Thailand Co.,Ltd., Hankook Tire de Colombia Ltda., Hankook Tire



# Hankook Tire Co., Ltd.

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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.  
Hankook Tyre Australia Retail Pty., Ltd., JAX Quickfit Franchising Systems Unit  
Trust., JAX Quickfit Franchising Systems Pty Ltd., JAX Quickfit Properties Pty  
Ltd., Hankook Tires India LLP, Hankook Tire Latam, S.A., Hankook Tire Latin  
America Distribution Center, S.A.

Domestic associates Hanon Systems Co., Ltd.

Other related parties <sup>1</sup> Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment  
Advisory, Daehwa Eng' & Machinery Jiaying Co., Ltd., Another WTE Co., Ltd., H-  
2 WTE Co., Ltd., Another Geumsan Co., Ltd., YOUKNOWTECH Co., Ltd

<sup>1</sup> The entity has a significant influence on the Company.

<sup>2</sup> Although the entity is not the related party of the Company in accordance with Korean IFRS 1024,  
the entity belongs to the Large Enterprise Group to which the Company also belongs in  
accordance with the Monopoly Regulation and Fair Trade Act.

<sup>3</sup> The entity was established during the year ended December 31, 2016 and the entire interests in  
the entity was sold to HK AUTOMOTIVE CO., LTD., a subsidiary of Hankook Tire Worldwide Co.,  
Ltd., a holding company, during the year ended December 31, 2017. Therefore, the entity was  
reclassified from the domestic subsidiary to the holding company's subsidiary.

Transactions between the Company and related parties for the years ended December 31,  
2017 and 2016, are as follows:

#### a) Sales and others

(in thousands of Korean won)

	2017			2016		
	Sales	Others <sup>1</sup>	Total	Sales	Others <sup>1</sup>	Total
Hankook Tire Worldwide Co., Ltd.	₩ -	₩ 111,892	₩ 111,892	₩ -	₩ 114,808	₩ 114,808
Atlas BX Co., Ltd.	-	534,511	534,511	-	413,616	413,616
Flying Motors Co., Ltd.	-	8,891	8,891	-	-	-
HK Automotive Co., Ltd.	-	3,651	3,651	-	-	-
EmFrontier Inc.	-	24,841	24,841	-	5,503	5,503
Hankook Tire America Corp	983,737,665	12,400	983,750,065	1,060,652,047	51,462	1,060,703,509
Hankook Tire Canada Corp.	100,034,243	1,540	100,035,783	91,725,768	3,606	91,729,374
Hankook Tire DE Mexico, S.A. DE C.V.,	86,813,414	1,955	86,815,369	54,678,465	4,901	54,683,366
Hankook Tire de Colombia Ltda.	37,660,682	849	37,661,531	14,935,995	3,760	14,939,755
Hankook Tire Manufacturing Tennessee LP	-	6,159,217	6,159,217	-	2,235,138	2,235,138
Hankook Tire Netherlands B.V.,	32,280,905	1,303,585	33,584,490	24,644,056	135,795	24,779,851
Hankook Tyre U.K. Ltd.,	36,378,151	1,312	36,379,463	25,972,970	4,788	25,977,758
Hankook Reifen Deutschland GmbH	120,984,251	-	120,984,251	79,225,150	4,048	79,229,198
Hankook Tire France SARL,	30,255,704	445	30,256,149	9,767,913	555	9,768,468
Hankook Tire Italia S.R.L.	28,350,471	7,825	28,358,296	18,526,264	60,866	18,587,130

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(in thousands of Korean won)

	2017			2016		
	Sales	Others <sup>1</sup>	Total	Sales	Others <sup>1</sup>	Total
Hankook Espana S.A.	22,408,811	8,105	22,416,916	10,733,093	7,555	10,740,648
Hankook Tire Europe GmbH,	-	12,672	12,672	-	-	-
Hankook Tire Hungary Ltd.,	3,092,217	46,376,767	49,468,984	-	47,126,649	47,126,649
Hankook Tire Budapest Kereskedelmi Kft	20,126,770	-	20,126,770	17,649,996	1,375	17,651,371
Hankook Tire Rus LLC,	115,290,510	1,597	115,292,107	88,943,153	547	88,943,700
Hankook Tire Sweden AB	19,670,648	-	19,670,648	14,650,338	-	14,650,338
Hankook Lastikleri A.S.	45,074,720	-	45,074,720	33,802,252	-	33,802,252
Hankook Tire Polska Sp. z o.o.	42,590,916	1,050	42,591,966	34,847,086	1,483	34,848,569
Hankook Tire Czech	7,763,164	100	7,763,264	6,293,033	192	6,293,225
Hankook Tire Japan Corp.	34,157,723	7	34,157,730	29,745,068	12,064	29,757,132
Hankook Tyre Australia Pty	36,054,876	-	36,054,876	39,278,634	7,051	39,285,685
Hankook Tyre Australia Retail Pty Ltd	-	12,636	12,636	-	-	-
PT. HANKOOKTIRE INDONESIA	8,524,408	34,606,873	43,131,281	6,526,027	39,037,609	45,563,636
Hankook Tire Thailand Co., Ltd	5,604,832	-	5,604,832	3,590,282	13,416	3,603,698
Hankook Tire Malaysia SDN.BHD.	4,574,641	2,819	4,577,460	4,779,557	43,137	4,822,694
Hankook Tire Singapore PTE., Ltd.	-	616,012	616,012	-	397,456	397,456
Hankook Tire China Co., Ltd.,	-	37,772,532	37,772,532	-	35,785,275	35,785,275
Jiangsu Hankook Tire Co., Ltd.,	-	37,903,602	37,903,602	-	32,302,591	32,302,591
Shanghai Hankook Tire Sales Co., Ltd.,	1,184,642	-	1,184,642	993,143	11,605	1,004,748
Chongqing Hankooktire Co., Ltd	-	30,661,109	30,661,109	-	24,061,318	24,061,318
Hankook Tire Panama	16,765,123	317	16,765,440	-	-	-
Hankook Tires India LLP	200,742	10	200,752	-	-	-
MK Technology Corp.	-	100	100	-	6,828	6,828
Daehwa Engineering & Machinery Co., Ltd.	-	-	-	-	119,404	119,404
Hankook Donggeurami Partners Co., Ltd.	-	3,043	3,043	-	3,897	3,897
	<u>₩1,839,580,229</u>	<u>₩196,152,265</u>	<u>₩2,035,732,494</u>	<u>₩1,671,960,290</u>	<u>₩181,978,298</u>	<u>₩1,853,938,588</u>

<sup>1</sup> Royalty income, commission income, interest income from loan is included. Dividend income is not included(Note 38).

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2017 and 2016**

b) Purchases and others

(in thousands of Korean won)

	2017			2016		
	Purchases	Others <sup>1</sup>	Total	Purchases	Others	Total
Hankook Tire Worldwide Co., Ltd. <sup>2</sup>	₩ -	₩ 72,812,881	₩72,812,881	₩ -	₩ 86,950,625	₩ 86,950,625
Atlas BX Co., Ltd.	37,424,770	-	37,424,770	39,903,920	-	39,903,920
Atlas BX Motorsports Co., Ltd.	-	679,928	679,928	-	350,000	350,000
HK Motors Co., Ltd.	-	1,472,229	1,472,229	-	102,593	102,593
EmFrontier Inc.	-	32,759,036	32,759,036	-	33,603,583	33,603,583
Hankook Tire America Corp.	-	-	-	-	1,695	1,695
Hankook Tire Canada Corp.	1,311	-	1,311	-	-	-
Hankook Tire DE Mexico, S.A. DE C.V.,	-	5,283	5,283	-	2,984	2,984
Hankook Tire de Colombia Ltda.	-	193,392	193,392	-	766,648	766,648
Hankook Tire Netherlands B.V.,	7,577	-	7,577	-	-	-
Hankook Tyre U.K. Ltd.,	-	182,927	182,927	-	117,506	117,506
Hankook Reifen Deutschland GmbH	-	-	-	4,515	-	4,515
Hankook Tire France SARL,	-	203,736	203,736	-	188,747	188,747
Hankook Tire Italia S.R.L.	-	-	-	-	35,460	35,460
Hankook Espana S.A.	-	137,094	137,094	-	104,324	104,324
Hankook Tire Europe GmbH,	-	13,787,563	13,787,563	-	10,338,931	10,338,931
Hankook Tire Hungary Ltd.,	283,907	952	284,859	251,133	-	251,133
Hankook Tire Budapest Kereskedelmi Kft	-	529,056	529,056	-	275,826	275,826
Hankook Tire Rus LLC,	-	1,039,453	1,039,453	-	856,549	856,549
Hankook Tire Sweden AB	225	875,848	876,073	-	808,827	808,827
Hankook Lastikleri A.S.	-	224,157	224,157	-	177,409	177,409
Hankook Tire Ceska Republika s.r.o.	-	671	671	-	18,682	18,682
Hankook Tyre Australia Pty.	-	494,833	494,833	-	566,245	566,245
PT. HANKOOKTIRE INDONESIA	48,879,894	5,437	48,885,331	26,313,108	37	26,313,145
Hankook Tire Thailand Co., Ltd	-	280,066	280,066	-	366,690	366,690
Hankook Tire Malaysia SDN.BHD.	-	317,858	317,858	-	257,475	257,475
Hankook Tire Singapore PTE., Ltd.	-	191,601	191,601	-	238,058	238,058
Hankook Tire China Co., Ltd.,	12,689,317	92,532	12,781,849	14,089,201	265,062	14,354,263
Jiangsu Hankook Tire Co., Ltd.,	105,568,615	413	105,569,028	95,503,169	76,049	95,579,218
Chongging Hankooktire Co., Ltd	29,215,837	-	29,215,837	20,285,691	-	20,285,691
Hankook Tire Panama	-	191,907	191,907	-	-	-
Hankook Tire LATAM S.A.	-	111,845	111,845	-	-	-
Hankook Tires India LLP	-	98,715	98,715	-	-	-
Hankook Tire Manufacturing Tennessee LP	-	38,478	38,478	-	-	-

# Hankook Tire Co., Ltd.

## Notes to the Separate Financial Statements

### December 31, 2017 and 2016

(in thousands of Korean won)

	2017			2016		
	Purchases	Others <sup>1</sup>	Total	Purchases	Others	Total
MK Technology Corp.	27,503,344	13,927	27,517,271	26,600,088	-	26,600,088
Daehwa Engineering & Machinery Co., Ltd.	30,401,808	96,666	30,498,474	41,230,082	90,618	41,320,700
Hankook Donggeurami Partners Co., Ltd.	-	3,678,639	3,678,639	-	1,439,480	1,439,480
Shin-Yang Tourist Development	-	208,598	208,598	-	201,284	201,284
	<u>₩291,976,605</u>	<u>₩130,725,721</u>	<u>₩422,702,326</u>	<u>₩264,180,907</u>	<u>₩138,201,387</u>	<u>₩402,382,294</u>

<sup>1</sup> Sales rebates and other paid to related parties, which are sales deductible items, are presented as purchases and others.

<sup>2</sup> The Company entered into a service supporting agreement and a trademark license agreement with Hankook Tire Worldwide Co., Ltd.

Outstanding balances of receivables and payables as at December 31, 2017 and 2016, are as follows:

#### a) Receivables and others

(in thousands of Korean won)

	2017			2016		
	Trade receivables	Non-trade receivables	Total	Trade receivables	Non-trade receivables	Total
Hankook Tire Worldwide Co., Ltd	₩ -	₩ 1,963,287	₩ 1,963,287	₩ -	₩ 1,865,261	₩ 1,865,261
Atlas BX Co., Ltd.	-	-	-	-	-	-
Flying Motors Co., Ltd.	-	3,510	3,510	-	-	-
HK Automotive Co., Ltd.	-	2,653	2,653	-	-	-
Hankook Tire America Corp.	288,007,752	6,062	288,013,814	401,050,214	76,178,259	477,228,473
Hankook Tire Canada Corp.	28,686,519	16	28,686,535	38,023,628	22,119	38,045,747
Hankook Tire DE Mexico, S.A. DE C.V.,	46,485,897	5,606	46,491,503	25,405,153	9,571	25,414,724
Hankook Tire de Colombia Ltda.	11,170,168	-	11,170,168	13,080,710	7,707	13,088,417
Hankook Tire Manufacturing Tennessee LP	430,625	5,964,291	6,394,916	42,827	1,654,571	1,697,398
Hankook Tire Netherlands B.V.,	15,581,874	491,774	16,073,648	7,816,696	57,344,947	65,161,643
Hankook Tyre U.K. Ltd.,	16,269,892	4,573	16,274,465	10,549,193	6,256	10,555,449
Hankook Reifen Deutschland GmbH	64,434,548	-	64,434,548	31,831,250	-	31,831,250
Hankook Tire France SARL,	19,114,257	2,276	19,116,533	4,232,040	2,961	4,235,001
Hankook Tire Italia S.R.L.	18,000,054	26,819	18,026,873	9,355,097	48,342	9,403,439
Hankook Espana S.A.	16,255,735	30,896	16,286,631	4,035,556	36,481	4,072,037
Hankook Tire Europe GmbH,	-	12,700	12,700	-	105,265	105,265
Hankook Tire Hungary Ltd.,	950,353	47,139,783	48,090,136	-	45,753,260	45,753,260

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2017 and 2016**

(in thousands of Korean won)

	2017			2016		
	Trade receivables	Non-trade receivables	Total	Trade receivables	Non-trade receivables	Total
Hankook Tire Budapest Kereskedelmi Kft	9,952,905	-	9,952,905	6,361,477	-	6,361,477
Hankook Tire Rus LLC,	49,180,975	1,533	49,182,508	56,217,190	-	56,217,190
Hankook Tire Sweden AB	6,593,246	-	6,593,246	7,314,273	-	7,314,273
Hankook Lastikleri A.S.	11,419,636	-	11,419,636	9,298,782	-	9,298,782
Hankook Tire Polska Sp. z o.o.	16,844,635	3,340	16,847,975	16,109,711	3,648	16,113,359
Hankook Tire Ceska Republika s.r.o.	4,405,385	1,037	4,406,422	3,202,784	1,238	3,204,022
Hankook Tire Japan Corp.	13,932,760	7	13,932,767	14,988,688	-	14,988,688
Hankook Tyre Australia Pty.	16,780,437	-	16,780,437	18,417,041	-	18,417,041
PT. HANKOOKTIRE INDONESIA	4,035,330	31,369,001	35,404,331	1,062,521	91,402,422	92,464,943
Hankook Tire Thailand Co., Ltd	2,547,569	-	2,547,569	1,076,128	927	1,077,055
Hankook Tire Malaysia SDN.BHD.	1,260,545	2,214	1,262,759	1,748,822	14,381	1,763,203
Hankook Tire Singapore PTE., Ltd.	-	548,032	548,032	-	201,706	201,706
Hankook Tire China Co., Ltd.,	-	33,487,360	33,487,360	-	87,107,144	87,107,144
Jiangsu Hankook Tire Co., Ltd.,	445	36,045,315	36,045,760	-	29,162,950	29,162,950
Shanghai Hankook Tire Sales Co., Ltd.,	145,333	1,018	146,351	83,867	13,153	97,020
Chongging Hankooktire Co., Ltd	-	23,671,491	23,671,491	416,356	80,656,293	81,072,649
Hankook Tire Panama	15,883,903	6,307	15,890,210	-	-	-
Hankook Tire LATAM S.A.	-	-	-	-	-	-
Hankook Tires India LLP	193,424	194	193,618	-	-	-
MK Technology Corp.	127,086	600,602	727,688	-	484,145	484,145
Daehwa Engineering & Machinery Co., Ltd.	-	17,875	17,875	-	62,454	62,454
Hankook Donggeurami Partners Co., Ltd.	-	-	-	-	440	440
Shin-Yang Tourist Development	-	400,000	400,000	-	400,000	400,000
	<u>₩678,691,288</u>	<u>₩ 181,809,572</u>	<u>₩ 860,500,860</u>	<u>₩681,720,004</u>	<u>₩472,545,901</u>	<u>₩ 1,154,265,905</u>

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2017 and 2016**

b) Payables and others

(in thousands of Korean won)

	2017			2016		
	Trade payable	Non-trade payables	Total	Trade payable	Non-trade payables	Total
Hankook Tire Worldwide Co., Ltd	₩ -	₩ 26,648,034	₩ 26,648,034	₩ -	₩29,060,712	₩ 29,060,712
Atlas BX Co., Ltd.	15,630,383	168,742	15,799,125	17,451,702	-	17,451,702
HK Motors Co., Ltd.	-	-	-	-	5,044	5,044
EmFrontier Inc.	-	10,962,817	10,962,817	-	15,129,812	15,129,812
Hankook Tire America Corp.	-	341,631	341,631	-	533,130	533,130
Hankook Tire Canada Corp.	-	630,900	630,900	-	104,897	104,897
Hankook Tire DE Mexico, S.A. DE C.V.	-	107,401	107,401	-	4,021	4,021
Hankook Tire de Colombia Ltda.	-	12,287	12,287	-	38,127	38,127
Hankook Tire Netherlands B.V.	875	4,166	5,041	-	5,983	5,983
Hankook Tyre U.K. Ltd.	-	407,161	407,161	-	111,676	111,676
Hankook Reifen Deutschland GmbH	-	9,920	9,920	-	19,135	19,135
Hankook Tire France SARL	-	22,410	22,410	-	55,694	55,694
Hankook Tire Italia S.R.L.	-	16,097	16,097	-	18,691	18,691
Hankook Espana S.A.	-	19,918	19,918	-	4,594	4,594
Hankook Tire Europe GmbH	-	2,672,624	2,672,624	-	2,403,665	2,403,665
Hankook Tire Hungary Ltd.	227,709	27,982	255,691	178,065	35,421	213,486
Hankook Tire Budapest Kereskedelmi Kft	-	76,956	76,956	-	18,935	18,935
Hankook Tire Rus LLC	-	68,565	68,565	-	39,616	39,616
Hankook Tire Sweden AB	-	141,020	141,020	-	50,444	50,444
Hankook Lastikeri A.S.	-	51,412	51,412	-	31,383	31,383
Hankook Tire Polska Sp. z o.o.	-	27,935	27,935	-	15,190	15,190
Hankook Tire Ceska Republika s.r.o.	-	1,744	1,744	-	25,626	25,626
Hankook Tire Japan Corp.	-	133,177	133,177	-	121,737	121,737
Hankook Tyre Australia Pty.	-	45,293	45,293	-	50,561	50,561
PT. HANKOOKTIRE INDONESIA	5,017,329	14,445	5,031,774	6,214,301	19,944	6,234,245
Hankook Tire Thailand Co., Ltd.	-	31,299	31,299	-	19,447	19,447
Hankook Tire Malaysia SDN.BHD.	-	27,391	27,391	-	22,423	22,423
Hankook Tire Singapore PTE., Ltd.	-	47,990	47,990	-	64,288	64,288
Hankook Tire China Co., Ltd.	1,357,538	74,389	1,431,927	4,118,702	-	4,118,702
Jiangsu Hankook Tire Co., Ltd.	12,714,673	-	12,714,673	19,765,330	-	19,765,330
Shanghai Hankook Tire Sales Co., Ltd.	-	92,082	92,082	-	30,435	30,435
Chongqing Hankooktire Co., Ltd.	4,801,985	-	4,801,985	7,559,814	-	7,559,814

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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(in thousands of Korean won)

	2017			2016		
	Trade payable	Non-trade payables	Total	Trade payable	Non-trade payables	Total
Hankook Tire Panama	-	40,131	40,131	-	-	-
Hankook Tires India LLP	-	19,032	19,032	-	-	-
MK Technology Corp.	-	2,331,154	2,331,154	-	3,220,378	3,220,378
Daehwa Engineering & Machinery Co., Ltd.	2,306,071	10,353,056	12,659,127	2,038,713	12,899,100	14,937,813
Hankook Donggeurami Partners Co., Ltd.	-	356,784	356,784	-	255,447	255,447
Shin-Yang Tourist Development	-	19,510	19,510	-	18,324	18,324
	<u>₩42,056,563</u>	<u>₩56,005,455</u>	<u>₩98,062,018</u>	<u>₩57,326,627</u>	<u>₩64,433,880</u>	<u>₩121,760,507</u>

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2017 and 2016**

Loans to related parties for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>				
	<b>Beginning balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Exchange differences</b>	<b>Ending balance</b>
<b>Subsidiaries</b>					
Chongqing Hankook Tire Co., Ltd.	₩ 60,425,000	₩ 236,164,160	₩ (60,425,000)	₩ (4,926,710)	₩ 231,237,450
Hankook Tire China Co., Ltd.	54,382,500	59,253,500	(54,382,500)	(1,976,000)	57,277,500
Jiangsu Hankook Tire Co., Ltd.	-	22,173,760	-	(408,310)	21,765,450
Hankook Tire Netherlands B.V.	57,175,800	50,528,650	(81,726,300)	(1,594,300)	24,383,850
Hankook Tire America, Corp.	76,135,500	-	(76,135,500)	-	-
PT. HANKOOKTIRE INDONESIA	60,425,000	-	(60,425,000)	-	-
Hankook Tyre Australia Retail Pty Ltd	-	5,805,117	(5,805,117)	-	-
	<u>₩ 308,543,800</u>	<u>₩ 373,925,187</u>	<u>₩ (338,899,417)</u>	<u>₩ (8,905,320)</u>	<u>₩ 334,664,250</u>

<i>(in thousands of Korean won)</i>	<b>2016</b>				
	<b>Beginning balance</b>	<b>Increase</b>	<b>Decrease</b>	<b>Exchange differences</b>	<b>Ending balance</b>
<b>Subsidiaries</b>					
Chongqing Hankook Tire Co., Ltd.	₩ 152,360,000	₩ -	₩ (93,760,000)	₩ 1,825,000	₩ 60,425,000
Hankook Tire China Co., Ltd.	70,320,000	16,479,000	(35,160,000)	2,743,500	54,382,500
Hankook Tire Netherlands B.V.	-	56,325,300	-	850,500	57,175,800
Hankook Tire America, Corp.	-	75,933,900	-	201,600	76,135,500
PT. HANKOOKTIRE INDONESIA	82,040,000	-	(23,440,000)	1,825,000	60,425,000
Hankook Tire Malaysia SDN.BHD.	-	1,761,000	(1,761,000)	-	-
Hankook Tire Thailand Co., Ltd.	-	1,176,300	(1,176,300)	-	-
	<u>₩ 304,720,000</u>	<u>₩ 151,675,500</u>	<u>₩ (155,297,300)</u>	<u>₩ 7,445,600</u>	<u>₩ 308,543,800</u>



**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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Dividend income/paid and contributions in cash with related parties for the years ended December 31, 2017 and 2016, are as follows:

*in thousands of Korean won)*

		<b>2017</b>		
		<b>Dividend income</b>	<b>Payment of dividend</b>	<b>Contributions in cash</b>
Holding company	Hankook Tire Worldwide Co., Ltd	₩ -	₩ 12,469,811	₩ -
Associate	Hanon Systems Co., Ltd.	31,209,300	-	-
Subsidiaries	MK Technology Corp.	4,138,260	-	-
	Hankook Tyre Australia Retail Pty., Ltd.	-	-	61,527,879
	Hankook Tires India LLP	-	-	1,482,073
	Hankook Tire Latam, S.A.	-	-	56,535
	Hankook Tire Latin America Distribution Center, S.A.	-	-	336,810
	Hankook Tire America Corp.	-	-	-
	HK Motors Co., Ltd. <sup>1</sup>	-	-	-
		<b>₩ 35,347,560</b>	<b>₩ 12,469,811</b>	<b>₩ 63,403,297</b>

<sup>1</sup> The entity was established during the year ended December 31, 2016 and the entire interests in the entity was sold to HK AUTOMOTIVE CO., LTD., a subsidiary of Hankook Tire Worldwide Co., Ltd., a holding company, during the year ended December 31, 2017. Therefore, the entity was reclassified from the domestic subsidiary to the holding company's subsidiary.

*(in thousands of Korean won)*

		<b>2016</b>		
		<b>Dividend income</b>	<b>Payment of dividend</b>	<b>Contributions in cash</b>
Holding company	Hankook Tire Worldwide Co., Ltd	₩ -	₩ 12,469,811	₩ -
Associate	Hanon Systems Co., Ltd.	35,786,664	-	-
Subsidiaries	MK Technology Corp.	-	-	-
	Hankook Tyre Australia Retail Pty., Ltd.	-	-	-
	Hankook Tires India LLP	-	-	-
	Hankook Tire Latam, S.A.	-	-	-
	Hankook Tire Latin America Distribution Center, S.A.	-	-	-
	Hankook Tire America Corp.	-	-	35,082,000
	HK Motors Co., Ltd. <sup>1</sup>	-	-	990,000
		<b>₩ 35,786,664</b>	<b>₩ 12,469,811</b>	<b>₩ 36,072,000</b>

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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The payment guarantees provided to the related parties, including overseas subsidiaries, as at December 31, 2017 and 2016, are as follows:

		Line of credit			
		2017		2016	
<i>(in thousands of Korean won, USD, EUR, HUF, JPY, RUB)</i>		Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
Currency					
Hankook Tire China Co., Ltd.	USD	-	₩ -	70,000,000	₩ 84,595,000
Hankook Tire Europe GmbH	EUR	125,000,000	159,906,250	125,000,000	158,450,000
Hankook Tire Europe GmbH and 16 others	USD	20,000,000	21,428,000	20,000,000	24,170,000
Hankook Tire Hungary Ltd. <sup>1</sup>	EUR	-	-	209,000,000	264,928,400
	HUF	9,214,435,200	38,055,617	25,095,435,200	102,389,376
Jiangsu Hankook Tire Co.,Ltd.	USD	-	-	30,000,000	36,255,000
Chongqing Hankooktire Co.,LTD	USD	60,000,000	64,284,000	110,000,000	132,935,000
PT. HANKOOKTIRE INDONESIA	USD	50,000,000	53,570,000	130,000,000	157,105,000
Hankook Tire China Co., Ltd. Jiangsu HankookTire Co.,Ltd, Chongqing Hankooktire Co.,LTD	USD	-	-	30,000,000	36,255,000
Hankook Tire Singapore PTE., Ltd.	USD	370,000,000	396,418,000	280,000,000	338,380,000
Hankook Tire Japan Corp.	JPY	300,000,000	2,847,330	-	-
Hankook Tire Manufacturing Tennessee	USD	530,000,000	567,842,000	480,000,000	580,080,000
Hankook Tire Malaysia SDN.BHD.	USD	-	-	6,000,000	7,251,000
Hankook Tire Thailand Co., Ltd.	USD	-	-	3,000,000	3,625,500
Hankook Tire Rus LLC	RUB	450,000,000	8,370,000	450,000,000	8,995,500
	USD	1,030,000,000	1,103,542,000	1,159,000,000	1,400,651,500
	EUR	125,000,000	159,906,250	334,000,000	423,378,400
	HUF	9,214,435,200	38,055,617	25,095,435,200	102,389,376
	JPY	300,000,000	2,847,330	-	-
	RUB	450,000,000	8,370,000	450,000,000	8,995,500
			₩ 1,312,721,197		₩ 1,935,414,776

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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<sup>1</sup> The above guarantee amount includes direct suretyship provided to the Hungarian government as follows:

	<b>1st agreement</b>	<b>2nd agreement</b>
Guarantee provided	HUF 15,881,000,000 + interest incurred	HUF 9,214,435,200 + interest incurred
The term of guarantee	From October 31, 2005, to December 31, 2017	From February 27, 2014, to September 30, 2023
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.	

Hankook Tire Worldwide Co., Ltd. (the surviving company) is jointly and severally liable for the Company's liabilities incurred before the spin-off. The outstanding balance of payment guarantee and credit facility agreements provided by Hankook Tire Worldwide Co., Ltd. jointly and severally at the end of reporting period are as follows:

<i>(in thousands of Korean won, USD, HUF)</i>	<b>2017</b>		<b>2016</b>	
	<b>Foreign currency</b>	<b>Korean won equivalent</b>	<b>Foreign currency</b>	<b>Korean won equivalent</b>
Payment guarantee				
HUF <sup>1</sup>	-	₩	-	15,881,000 ₩
Credit facility agreements				
USD	70,000	₩	74,998,000	70,000 ₩

<sup>1</sup>Details are the same as direct suretyship provided to the Hungarian government, 1<sup>st</sup> agreement.

Compensations for key management for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	<b>2017</b>		<b>2016</b>	
Salaries	₩	9,820,543	₩	9,315,012
Post-employment benefits		1,449,112		1,919,604
	₩	<u>11,269,655</u>	₩	<u>11,234,616</u>

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2017 and 2016**

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**39. Events After the Reporting Period**

Due to reorganization of Hankook Tire Worldwide Co., Ltd., Hankook Tire Worldwide Co., Ltd. transferred its control over some organizations to the Company. The transfer of assets and liabilities due to reorganization of certain associates will be proceeded according to the appropriate regulations.

After the end of the reporting period, the Company issued foreign currency corporate debentures amounting to USD 300,000 thousand to pay existing debentures and operation purpose.

## **Report on Independent Accountants' Review of Internal Accounting Control System**

To the President of Hankook tire Co., Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Hankook tire Co., Ltd.(the "Company") as of December 31, 2017. The Company's management is responsible for designing and operating IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review the management's report on the operations of the IACS and issue a report based on our review. The management's report on the operations of the IACS of the Company states that "based on its assessment of the operations of the IACS as of December 31, 2017, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2017, in all material respects, in accordance with the IACS standards.

Our review was conducted in accordance with the IACS review standards established by the Korean Institute of Certified Public Accountants. Those standards require that we plan and perform, in all material respects, the review of management's report on the operations of the IACS to obtain a lower level of assurance than an audit. A review is to obtain an understanding of a company's IACS and consists principally of inquiries of management and, when deemed necessary, a limited inspection of underlying documents, which is substantially less in scope than an audit.

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. 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 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 management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards.

Our review is based on the Company's IACS as of December 31, 2017, and we did not review management's assessment of its IACS subsequent to December 31, 2017. This report has been prepared pursuant to the Acts on External Audit for Stock Companies in Korea and may not be appropriate for other purposes or for other users.

Samil PricewaterhouseCoopers

March 16, 2018

## Report on the Operations of the Internal Accounting Control System

### 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 Co., Ltd.

I, as the Internal Accounting Control Officer ("IACO") of Hankook Tire Co., Ltd. ("the Company"), assessed the status of the design and operation of the Company's IACS for the year ended December 31, 2017.

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

Based on the assessment of the IACS, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2017, in all material respects, in accordance with the IACS Framework.

February 28, 2018



Park, Jong Ho  
Internal Accounting Control Officer



Cho, Hyun Bum  
Chief Executive Officer