

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

Hankook Tire Worldwide Co., Ltd.

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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 Worldwide Co., Ltd.

We have audited the accompanying separate financial statements of Hankook Tire Worldwide Co., Ltd. (the Company), which comprise the separate statements of financial position as at December 31, 2017 and 2016, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate 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 separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements present fairly, in all material respects, the separate financial position of Hankook Tire Worldwide Co., Ltd. as at December 31, 2017 and 2016, and its separate financial performance and its separate cash flows for the years then ended in accordance with Korean IFRS.

Other matter

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 separate 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 Worldwide Co., Ltd.
Separate Statements of Financial Position
December 31, 2017 and 2016

<i>(in thousands of Korean won)</i>	Notes	2017		2016	
Assets					
Current assets					
Cash and cash equivalents	4	₩	4,958,875	₩	173,856,581
Short-term financial assets	4		137,690,301		247,500,000
Financial assets at fair value through profit or loss	4,7		20,460,417		-
Available-for-sale financial assets	4,6		-		2,104,938
Trade receivables	4,5		26,648,034		29,060,718
Other receivables	4,5		11,452,387		58,225,477
Derivative financial assets	4,8		-		2,309,748
Other current assets	9		16,905		17,157
			<u>201,226,919</u>		<u>513,074,619</u>
Non-current assets					
Financial assets at fair value through profit or loss	4,7		19,925,401		20,072,360
Property, plant and equipment	11		27,978,786		28,593,456
Investment property	12		24,037,651		24,701,533
Intangible assets	13		8,708,033		8,956,613
Investments in subsidiaries	10		22,229,979		12,229,979
Investments in associates	10		1,954,546,303		1,630,433,853
Available-for-sale financial assets	4,6		29,399,821		30,642,468
Net defined benefit assets	16		-		964
Other non-current assets	9		650,018		650,018
			<u>2,087,475,992</u>		<u>1,756,281,244</u>
Total assets		₩	<u>2,288,702,911</u>	₩	<u>2,269,355,863</u>
Liabilities					
Current liabilities					
Other payables	4,14	₩	13,599,709	₩	7,365,452
Current tax liabilities			6,421,050		5,919,337
Other current liabilities	15		2,969,718		2,384,008
			<u>22,990,477</u>		<u>15,668,797</u>
Non-current liabilities					
Net defined benefit liabilities	16		457,335		-
Other non-current payables	4,14		-		6,668,342
Deferred tax liabilities	25		58,742,054		59,187,906
Other non-current liabilities	15		257,657		269,238
			<u>59,457,046</u>		<u>66,125,486</u>
Total liabilities			<u>82,447,523</u>		<u>81,794,283</u>
Equity					
Share capital	1,17		46,510,087		46,510,087
Other paid-in capital	18		1,291,535,691		1,291,535,691
Retained earnings	19		867,838,106		847,999,087
Other components of equity	20		371,504		1,516,715
Total equity			<u>2,206,255,388</u>		<u>2,187,561,580</u>
Total liabilities and equity		₩	<u>2,288,702,911</u>	₩	<u>2,269,355,863</u>

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

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

(in thousands of Korean won, except per share data)

	Notes	2017		2016	
Operating income	21,27,29	₩	87,426,603	₩	90,300,328
Operating expense	22		45,001,327		46,256,224
Operating profit			42,425,276		44,044,104
Finance income	23		15,017,432		12,467,812
Finance costs	23		768,488		512,127
Other non-operating income	24		4,317,395		6,835,687
Other non-operating expense	24		5,178,155		7,963,617
Profit before income tax			55,813,460		54,871,859
Income tax expense	25		10,213,583		10,113,280
Profit for the year		₩	45,599,877	₩	44,758,579
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Remeasurements of net defined benefit liabilities (assets)	16		1,747,666		(597,150)
Items that may be subsequently reclassified to profit or loss					
Changes in the fair value of available-for-sale financial assets	4,20		(1,145,211)		4,364
Other comprehensive income for the year, net of tax			602,455		(592,786)
Total comprehensive income for the year		₩	46,202,332	₩	44,165,793
Earnings per share					
Basic and diluted earnings per share	30	₩	497	₩	488

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

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

	Notes	Share capital	Other paid-in capital		Retained earnings	Other components of equity	Total equity
			Paid-in capital in excess of par value	Treasury shares		Changes in the fair value of available-for-sale financial assets	
<i>(in thousands of Korean won)</i>							
Balance as of January 1, 2016		₩ 46,510,087	₩ 1,302,628,300	₩ (11,092,609)	₩ 831,346,183	₩ 1,512,351	₩ 2,170,904,312
Total comprehensive income for the year							
Profit for the year		-	-	-	44,758,579	-	44,758,579
Remeasurements of net defined benefit liabilities (assets)	16	-	-	-	(597,150)	-	(597,150)
Changes in the fair value of available-for-sale financial assets	20	-	-	-	-	4,364	4,364
Transactions with owners :							
Annual dividends	19	-	-	-	(27,508,525)	-	(27,508,525)
Balance at December 31, 2016		₩ 46,510,087	₩ 1,302,628,300	₩ (11,092,609)	₩ 847,999,087	₩ 1,516,715	₩ 2,187,561,580
Balance as of January 1, 2017		₩ 46,510,087	₩ 1,302,628,300	₩ (11,092,609)	₩ 847,999,087	₩ 1,516,715	₩ 2,187,561,580
Total comprehensive income for the year							
Profit for the year		-	-	-	45,599,877	-	45,599,877
Remeasurements of net defined benefit liabilities (assets)	16	-	-	-	1,747,666	-	1,747,666
Changes in the fair value of available-for-sale financial assets	20	-	-	-	-	(1,145,211)	(1,145,211)
Transactions with owners :							
Annual dividends	19	-	-	-	(27,508,525)	-	(27,508,525)
Balance at December 31, 2017		₩ 46,510,087	₩ 1,302,628,300	₩ (11,092,609)	₩ 867,838,105	₩ 371,504	₩ 2,206,255,387

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

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

<i>(in thousands of Korean won)</i>	Notes	2017	2016
Cash flows from operating activities			
Cash generated from operating activities			
Profit for the year		₩ 45,599,877	₩ 44,758,579
Adjustments	26	(11,326,323)	(7,554,364)
Changes in operating assets and liabilities	26	<u>2,320,173</u>	<u>103,587</u>
		36,593,727	37,307,802
Interest received		10,086,877	7,694,214
Dividends received		13,065,390	14,465,650
Income tax paid		<u>(10,350,061)</u>	<u>(6,132,690)</u>
Net cash inflow from operating activities		<u>49,395,933</u>	<u>53,334,976</u>
Cash flows from investing activities			
Payments for short-term financial assets		(535,698,718)	(354,500,000)
Proceeds from sale of short-term financial assets		645,508,417	376,000,000
Payments for financial assets designated at fair value through profit and loss	7	(98,000,000)	(20,000,000)
Proceeds from sale of financial assets at fair value through profit or loss		78,387,996	-
Increase in short-term loans		-	(56,996,920)
Repayments of short-term loans		52,405,440	92,213,800
Payments for available-for-sale financial assets		(4,884,180)	(10,180,000)
Proceeds from sale of available-for-sale financial assets		2,129,703	2,467,094
Payments for property, plant and equipment	11	(269,654)	(349,030)
Proceeds from sale of property, plant and equipment		5,570	-
Payments for intangible assets	13	(493,891)	(474,604)
Payments for investments in subsidiaries	10	(10,000,000)	-
Payments for investments in associates	10	(324,112,451)	-
Cash inflow from derivative transactions		4,237,560	-
Cash outflow from derivative transactions		-	(5,145,883)
Net cash inflow (outflow) from investing activities		<u>(190,784,208)</u>	<u>23,034,457</u>
Cash flows from financing activities			
Dividends payment	19	<u>(27,508,525)</u>	<u>(27,508,525)</u>
Net cash outflow from financing activities		<u>(27,508,525)</u>	<u>(27,508,525)</u>
Net increase (decrease) in cash and cash equivalents		<u>(168,896,800)</u>	<u>48,860,908</u>
Cash and cash equivalents at the beginning of the financial year		173,856,581	124,995,571
Effects of exchange rate changes on cash and cash equivalents		(906)	102
Cash and cash equivalents at the end of the year		<u>₩ 4,958,875</u>	<u>₩ 173,856,581</u>

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

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December 31, 2017 and 2016

1. General Information

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

Through the multiple capital increases, transfers of convertible notes and the spin-off, the authorized number of the Company's ordinary shares are 250 million with a par value of ₩500 per share as at December 31, 2017. The share capital of the Company is ₩46,510,087 thousand (ordinary shares: 93,020,173 thousand) and the Company's shareholders as at the end of the reporting period, are as follows:

	2017		2016	
	Number of shares	Percentage of ownership (%)	Number of shares	Percentage of ownership (%)
Yang Rai Cho	₩ 21,942,693	23.6	₩ 21,942,693	23.6
Hyun Shick Cho	17,974,870	19.3	17,974,870	19.3
Hyun Bum Cho	17,959,178	19.3	17,959,178	19.3
Treasury shares	1,325,090	1.4	1,325,089	1.4
Others	33,818,342	36.4	33,818,343	36.4
	<u>₩ 93,020,173</u>	<u>100.0</u>	<u>₩ 93,020,173</u>	<u>100.0</u>

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

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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 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.

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 26).

- 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 or 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.

- 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

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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.

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.

- 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

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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.

In applying 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.

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

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

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² 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 ₩ 180,749,597 thousand, financial assets available-for-sales of ₩ 29,399,821 thousand and financial assets at fair value through profit or loss of ₩ 40,385,818 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 ₩ 180,749,597 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 ₩ 824,791 thousand classified as financial assets available-for-sale and recycled no unrealized gain or loss 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 instruments classified as financial assets at fair value through profit or loss that amount to ₩ 40,385,818 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.

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(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 ¹		Loss allowance
1	No significant increase in credit risk after initial recognition ²	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	

¹ 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 losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

² 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 ₩ 180,749,597 thousand (loans and receivables of ₩ 180,749,597 thousand), debt investments carried at fair value through other comprehensive income, which classified as financial assets available-for-sales, of ₩ 28,575,030 thousand. And, the Company does not recognized loss allowance of 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,

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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.

As at December 31, 2017, the Company does not apply the hedge accounting to its assets, liabilities, firm commitments and forecast transactions. With applying the hedge accounting, the Company recognized the fair value changes of fair value hedging instruments for ₩ 1,927,812 thousand in profit or loss.

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.

- 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 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

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- 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

(a) Licensing: a right to access intelligent property

The Company enters into contracts that Hankook Tire Co., Ltd. for use of the brand of Hankook Tire for license periods and receives a license fee. During 2017, the Company recognized ₩ 48,735,137 thousand of revenue generated from the licenses of the brand that accounts for 55.7% of total revenues of the Company.

The nature of the Company's promise in granting a license is a promise to provide a right to access the Company's intellectual property over a license period; therefore, in accordance with Korean IFRS 1115, the Company determined the promised license is a performance obligation that is satisfied over time. The Company concluded that recognize revenue over the license period is an appropriate method for measuring the Company's progress towards complete satisfaction of the performance obligation.

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 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 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 each entity 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.

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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.

For hybrid (combined) instruments, the Company is unable to measure an embedded derivative separately from its host contract; therefore, the entire hybrid (combined) contract is classified as at fair value through profit or loss. The Company designated securitized derivatives, as at fair value through profit or loss.

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 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

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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.

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 within 'other non-operating income (expenses)' or 'finance income (costs)' based on the nature of transactions.

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2.7 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:

	Useful life
Buildings	20 - 40 years
Structures	20 - 40
Vehicles	4
Supplies	4

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

2.8 Intangible Assets

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

Membership rights that have an indefinite useful life are not subject to amortization 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:

	Useful life
Industrial property rights	5 years

2.9 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 for 40 years.

2.10 Impairment of Non-financial Assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested

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annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. 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.

2.11 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', 'other payables', and 'other non-current payables' in the statement of financial position.

(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.

2.12 Current and Deferred Tax

The tax expense for the period consists of current and deferred tax. Current and deferred 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.

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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.

2.13 Employee Benefits

(a) Post-employment benefits

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.

2.14 Revenue Recognition

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

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transaction and the specifics of each arrangement.

(a) 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.

(b) Royalty income

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

(c) 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.

(d) Dividend income

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

(e) Rental income

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

2.15 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.

2.16 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.

2.17 Reclassification of Prior Year Financial Statement

A certain amounts in the financial statements as at and for the year ended December 31, 2017, have been reclassified to conform to the December 31, 2016 financial statement presentation. These reclassifications have no effect on previously reported profit or equity.

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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 25).

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 is 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 4).

(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 16).

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

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The debt ratio as at the end of the reporting period, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
Total liabilities	₩	82,447,525	₩	81,794,283
Total equity		2,206,255,387		2,187,561,579
Debt ratio		3.7%		3.7%

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

(c) Categories of financial instruments as at the end of the reporting period, are as follows:

<i>(in thousands of Korean won)</i>		2017		2016	
Financial assets:					
Derivatives designated as a hedging instrument	Derivative financial assets	₩	-	₩	2,309,748
Available-for-sale financial assets	Available-for-sale financial assets		29,399,821		32,747,405
Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss		40,385,818		20,072,360
Loans and receivables	Cash and cash equivalents		4,958,875		173,856,581
	Short-term financial assets		137,690,301		247,500,000
	Trade receivables		26,648,034		29,060,718
	Other receivables		11,452,387		58,225,477
		₩	250,535,236	₩	563,772,289

<i>(in thousands of Korean won)</i>		2017		2016	
Financial liabilities:					
Financial liabilities at amortized cost	Other payables	₩	13,599,709	₩	7,365,452
	Other non-current payables		-		6,668,342
		₩	13,599,709	₩	14,033,794

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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>	2017	2016
Derivatives designated as a hedging instrument		
Gain on valuation of foreign exchange forward contracts	₩ -	₩ 2,309,748
Gain (loss) on foreign exchange forward transaction	1,927,812	(2,468,315)
AFS financial assets		
Gain (loss) on valuation (other comprehensive income, net of tax)	(1,145,211)	4,364
Gain on disposal	4,886,840	2,467,093
Dividend income	4,820	1,760
Financial assets at fair value through profit or loss		
Gain on valuation	385,818	72,360
Gain on disposal	315,636	-
Loans and receivables		
Interest income	8,353,304	9,614,387
Gain (loss) on foreign currency transaction	(2,036,278)	1,863,464
Loss on foreign currency translation	(906)	(2,246,658)
Financial liabilities measured at amortized cost		
Gain (loss) on foreign currency transaction	6,436	(4,626)
Gain (loss) on foreign currency translation	1,215	(6,438)
	<u>₩ 12,699,486</u>	<u>₩ 11,607,139</u>

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

The finance department of the Company report the details quarterly to Foreign Exchange Risk

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Management Committee monitoring whether the Company continues to comply with the risk management policies and the current risk management system works appropriately for the risks that the Company is exposed to.

2) Market risk

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

a) Foreign currency risk management

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

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates.

The table below summarizes the impact of weakened Korean won on the Company's pre-tax profit for the year. The analysis is based on the assumption that Korean won has weakened by 10% with all other variables held constant.

<i>(in thousands of Korean won)</i>		2017		2016
USD	W	1,543	W	(10,339)
CNY		-		359,589
EUR		(2,001)		(4,868)
Others		(962)		(988)

Details of unpaid currency forward contracts as at the year ended December 31, 2016, are as follows:

<i>(in thousands of Korean won and thousands of CNY)</i>	2017						
	Contract date	Maturity date	Contract sum	Contract rate	Strike amount	Fair value	Gain on valuation
Citi Bank	2016.05.24	2017.05.24	CNY 316,000	176.30	W 55,710,800	W 53,401,052	W 2,309,748

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

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establishes alternatives.

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.

The below sensitivity analysis was performed based on stock price fluctuation risk at the end of the reporting period.

If the price of AFS financial assets changed by 5% with all other variables held constant, other comprehensive income would be increased/decreased by ₩ 44,591 thousand (2016: ₩ 47,077 thousand) for the year ended December 31, 2017.

There was no significant change in sensitivity of stock price of the Company comparing to that of prior year.

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 Financial Risk Management Committee.

Credit ratings of trade receivables are evaluated constantly and credit guarantee contracts are made, if necessary. Financial assets exposed to credit risk except for the financial guarantee contracts presented below are excluded from the disclosure as their carrying amounts are the maximum exposures to the credit risk.

<i>(in thousands of Korean won)</i>	2017	2016
Financial guarantee contracts ¹	₩ -	₩ 64,794,480

¹ The maximum exposure of financial guarantee contract is the maximum amount that the Company should pay when the guarantee is requested.

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

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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.

a) Details of liquidity risk

The table below illustrates remaining contractual maturity of non-derivative financial liabilities and Net settled derivative financial instrument in detail. Contractual maturity is based on the earliest day when the payment can be claimed to the Company. Maturity analysis of non-derivative financial liabilities according to their remaining maturity at the end of the reporting period, are as follows:

(in thousands of Korean won)

	2017					
	Book amount	Contractual cash flows	Residual amount			
			Within a year	1-2 years	2-5 years	After 5 years
Other payables	₩ 13,599,709	₩ 13,599,709	₩ 13,599,709	₩ -	₩ -	₩ -

(in thousands of Korean won)

	2016					
	Book amount	Contractual cash flows	Residual amount			
			Within a year	1-2 years	2-5 years	After 5 years
Other payables	₩ 7,365,452	₩ 7,365,452	₩ 7,365,452	₩ -	₩ -	₩ -
Other non-current payables	6,668,342	6,668,342	-	6,668,342	-	-
Financial guarantee contracts	-	64,794,480	64,794,480	-	-	-
	<u>₩ 14,033,794</u>	<u>₩ 78,828,274</u>	<u>₩ 72,159,932</u>	<u>₩ 6,668,342</u>	<u>₩ -</u>	<u>₩ -</u>

Amounts of instruments with floating interest rate included in the above table may change if the changes in floating interest rate is different from the interest rate estimates determined at the end of the reporting period. The Company determined that the Group can repay the obligations with the cash that will be redeemed when the financial assets mature.

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(e) Fair value of financial instruments

a) Details of the financial instruments that are measured at fair value as at the end of the reporting period, are as follows:

(in thousands of Korean won)

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets ¹ :				
AFS financial assets	₩ 29,179,742	₩ 29,179,742	₩ 32,527,326	₩ 32,527,326
Financial assets at fair value through profit or loss	40,385,818	40,385,818	20,072,360	20,072,360
Derivative financial assets	-	-	2,309,748	2,309,748

¹ 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.

Trade receivables, non-trade receivables, other receivables and payables measured at amortized cost whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

b) Details of financial assets and liabilities that are supposed to measured at fair value subsequent to initial recognition but cannot be measured reliably as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

		2017	2016
AFS financial assets	Unlisted securities ¹	₩ 220,079	₩ 220,079

¹ The unlisted securities stated in the table are measured at historical cost because they are issued by small and medium enterprises so that the required information for valuation techniques is not available or cannot reliably estimated.

Financial assets that are supposed to measured at fair value subsequent to initial recognition but cannot be measured reliably were measured at cost, and there were no financial assets derecognized due to sales of the assets for the year ended December 31, 2017.

c) Valuation methods and assumptions applied in fair value measurement

Financial instruments that are measured subsequent to initial recognition at fair value 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).

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- Unobservable inputs for the asset or liability (Level 3).

Financial instruments that are measured subsequent to initial recognition at fair value at the end of the reporting period, are as follows:

(in thousands of Korean won)

	2017			
	Level 1	Level 2	Level 3	Total
AFS financial assets				
Marketable equity instruments	₩ 604,712	₩ -	₩ -	₩ 604,712
Nonmarketable debt instruments	-	28,575,030	-	28,575,030
Financial assets at fair value through profit or loss				
Derivative linked securities	-	40,385,818	-	40,385,818
	₩ 604,712	₩ 68,960,848	₩ -	₩ 69,565,560

(in thousands of Korean won)

	2016			
	Level 1	Level 2	Level 3	Total
AFS financial assets				
Marketable equity instruments	₩ 706,399	₩ -	₩ -	₩ 706,399
Nonmarketable debt instruments	-	31,820,927	-	31,820,927
Financial assets at fair value through profit or loss				
Derivative linked securities	-	20,072,360	-	20,072,360
Derivative instruments				
Currency forward assets	-	2,309,748	-	2,309,748
	₩ 706,399	₩ 54,203,035	₩ -	₩ 54,909,434

(f) *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 are no transfers between levels of each fair value hierarchy of financial instruments.

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(g) Valuation Techniques and the Inputs

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

(In thousands of Korean won)

		2017		
	Fair value	Level	Valuation techniques	Inputs
AFS financial assets				
Government bonds	₩ 19,146,730	2	Discounted cash flows model	Credit risk adjusted discount rate
Hybrid capital securities (consol bond)	9,428,300	2	Discounted cash flows model	Credit risk adjusted discount rate
Financial assets at fair value through profit or loss				
Derivative linked securities	40,385,818	2	Option pricing model	Underlying assets price, Credit risk adjusted discount rate, Volatility of underlying assets

(In thousands of Korean won)

		2016		
	Fair value	Level	Valuation techniques	Inputs
AFS financial assets				
Government bonds	₩ 22,104,427	2	Discounted cash flows model	Credit risk adjusted discount rate
Hybrid capital securities (consol bond)	9,716,500	2	Discounted cash flows model	Credit risk adjusted discount rate
Financial assets at fair value through profit or loss				
Derivative linked securities	20,072,360	2	Option pricing model	Underlying assets price, Credit risk adjusted discount rate, Volatility of underlying assets
Derivative instruments				
Currency forward assets	2,309,748	2	Discounted cash flows model	Discount rate

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5. Trade and Other Receivables

Details of trade and other receivables as at the end of the reporting period, are as follows:

(in thousands of Korean won)

	2017		
	Gross amount	Less: Provision for impairment	Net amount
Current			
Trade receivables	₩ 26,648,034	₩ -	₩ 26,648,034
Other receivables			
Non-trade receivables	10,041,488	-	10,041,488
Accrued income	1,410,899	-	1,410,899
Short-term loans	-	-	-
	<u>₩ 11,452,387</u>	<u>₩ -</u>	<u>₩ 11,452,387</u>

(in thousands of Korean won)

	2016		
	Gross amount	Less: Provision for impairment	Net amount
Current			
Trade receivables	₩ 29,060,718	₩ -	₩ 29,060,718
Other receivables			
Non-trade receivables	96,365	-	96,365
Accrued income	3,378,952	-	3,378,952
Short-term loans	54,750,160	-	54,750,160
	<u>₩ 58,225,477</u>	<u>₩ -</u>	<u>₩ 58,225,477</u>

Trade receivables and other receivables above are classified as loan and receivables, and measured at amortized cost. There were no changes in provision for trade receivables and other receivables during the reporting period. The Company considers a change of credit grade about trade receivables from starting date for granting credit to the statements of financial position date to judge recoverability of trade receivables and others.

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6. AFS Financial Assets

Details of AFS financial assets at the end of the reporting periods are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
Equity instruments				
Marketable equity instruments	₩	604,712	₩	706,399
Nonmarketable equity instruments		220,079		220,079
		<u>824,791</u>		<u>926,478</u>
Debt instruments				
Government bonds		19,146,730		22,104,427
Hybrid capital securities (consol bond)		9,428,300		9,716,500
		<u>28,575,030</u>		<u>31,820,927</u>
	₩	<u>29,399,821</u>	₩	<u>32,747,405</u>

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

<i>(in thousands of Korean won)</i>	2017				
	Beginning balance	Acquisition	Valuation	Disposals	Ending balance
Marketable equity instruments	₩ 706,399	₩ 4,884,180	₩ (101,687)	₩ (4,884,180)	₩ 604,712
Nonmarketable equity instruments	220,079	-	-	-	220,079
	<u>₩ 926,478</u>	<u>₩ 4,884,180</u>	<u>₩ (101,687)</u>	<u>₩ (4,884,180)</u>	<u>₩ 824,791</u>

<i>(in thousands of Korean won)</i>	2016			
	Beginning balance	Valuation	Disposals	Ending balance
Marketable equity instruments	₩ 313,715	₩ 392,684	₩ -	₩ 706,399
Nonmarketable equity instruments	220,081	-	(2)	220,079
	<u>₩ 533,796</u>	<u>₩ 392,684</u>	<u>₩ (2)</u>	<u>₩ 926,478</u>

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

(in thousands of Korean won)

	2017			
	Beginning balance	Valuation	Disposals	Ending balance
Government bonds	₩ 22,104,427	₩ (852,760)	₩ (2,104,937)	₩ 19,146,730
Hybrid capital securities (consol bond)	9,716,500	(288,200)	-	9,428,300
	<u>₩ 31,820,927</u>	<u>₩ (1,140,960)</u>	<u>₩ (2,104,937)</u>	<u>₩ 28,575,030</u>

(in thousands of Korean won)

	2016			
	Beginning balance	Valuation	Disposals	Ending balance
Government bonds	₩ 22,027,855	₩ -	₩ 76,572	₩ 22,104,427
Hybrid capital securities (consol bond)	-	10,180,000	(463,500)	9,716,500
	<u>₩ 22,027,855</u>	<u>₩ 10,180,000</u>	<u>₩ (386,928)</u>	<u>₩ 31,820,927</u>

7. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss as at the end of the reporting period, are as follows:

(in thousands of Korean won)

	2017		2016	
	Current	Non-current	Current	Non-current
Derivative-linked securities	₩ 20,460,417	₩ 19,925,401	₩ -	₩ 20,072,360

Changes in financial assets at fair value through profit or loss for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017				
	Beginning balance	Acquisition	Disposals	Valuation	Ending balance
Derivative-linked securities	₩ 20,072,360	₩ 98,000,000	₩ (78,072,360)	₩ 385,818	₩ 40,385,818

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(in thousands of Korean won)

	2016			
	Beginning balance	Acquisition	Valuation	Ending balance
Derivative-linked securities	₩ -	₩ 20,000,000	₩ 72,360	₩ 20,072,360

Changes in fair value of financial assets at fair value through profit or loss are presented in the statements of comprehensive income under "finance income and costs" (Note 23).

8. Derivative Financial Instruments

Details of derivative financial instruments as at the end of the reporting period, are as follows:

(in thousands of Korean won)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges				
Currency forward	₩ -	₩ -	₩ 2,309,748	₩ -

Gain (loss) from derivative financial instruments for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017		2016	
	Gain (loss) on valuation	Gain on transaction	Gain on valuation	Loss on transaction
Fair value hedges				
Currency forward	₩ -	₩ 1,927,812	₩ 2,309,748	₩ (2,468,315)

9. Other Assets

Details of other assets as at the end of the reporting period, are as follows:

(in thousands of Korean won)

	2017		2016	
	Current	Non-current	Current	Non-current
Prepaid expenses	₩ 16,905	₩ -	₩ 17,158	₩ -
Others	-	650,018	-	650,018
	₩ 16,905	₩ 650,018	₩ 17,158	₩ 650,018

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10. Investments in Subsidiaries and Associates

Set out below are the subsidiaries and associates of the Company as at the end of the reporting period.

Name of entity	Percentage of ownership (%)		Location	Closing month	Main business
	2017	2016			
Subsidiaries					
Atlas BX Co., Ltd	74.9	74.9	Korea	December	Manufacturing and sales of storage batteries and dry cells
Atlas BX Motorsports Co., Ltd. ¹	74.9	74.9	Korea	December	Management of racing team and agency of advertisement
Atlasbx America Corporation ²	74.9	-	USA	December	Sales of storage batteries and dry cells
HK AUTOMOTIVE Co., Ltd. ³	100.0	-	Korea	December	Repairing automobiles and sales of parts
Flying Motors Co., Ltd. ³	100.0	-	Korea	December	Repairing automobiles and sales of parts
HK Motors Co., Ltd. ⁴	100.0	-	Korea	December	Repairing automobiles and sales of parts
Associates					
Hankook Tire Co., Ltd. ⁵	30.0	25.2	Korea	December	Manufacturing, reproduction processing and sales of the automobile tires, tubes and accessories.
EmFrontier, Inc.	40.0	40.0	Korea	December	E-business and total systems management service

¹ Atlas BX Co., Ltd holds 100% of equity interests of the entity as at December 31, 2017 and 2016.

² Atlas BX Co., Ltd., a subsidiary of the Company, newly established Atlasbx America Corporation during the year ended December 31, 2017.

³ The Company newly established HK AUTOMOTIVE Co., Ltd. during the year ended December 31, 2017, and HK AUTOMOTIVE Co., Ltd. acquired Flying Motors Co., Ltd. and was classified as one of subsidiaries during 2017.

⁴ HK AUTOMOTIVE Co., Ltd. acquired 100% shares of HK Motors Co., Ltd. from Hankook Tire Co., Ltd., an associate of the Company, and was classified as subsidiaries during 2017.

⁵ In December 2017, as the Company acquired 5,987,994 shares (acquisition price : ₩ 324,112,451 thousand) from its related party, Yang Rai Cho, the effective percentage of ownership was changed to 30.0%.

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Details of the Company's investments in subsidiaries and associates for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
	Investments in subsidiaries	Investments in associates	Investments in subsidiaries	Investments in associates
Beginning balance	₩ 12,229,979	₩ 1,630,433,852	₩ -	₩ 1,642,663,831
Acquisition of subsidiaries	10,000,000	-	-	-
Acquisition of associates	-	324,112,451	-	-
Transferred to subsidiaries	-	-	12,229,979	(12,229,979)
Ending balance	<u>₩ 22,229,979</u>	<u>₩ 1,954,546,303</u>	<u>₩ 12,229,979</u>	<u>₩ 1,630,433,852</u>

As at the end of the reporting period, the fair values of marketable investments in associates are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Atlas BX Co., Ltd.	₩ 139,870,434	₩ 150,125,700
Hankook Tire Co., Ltd.	2,029,073,647	1,808,122,566

11. Property, Plant and Equipment

Details of property, plant and equipment as at the end of the reporting period, are as follows:

<i>(in thousands of Korean won)</i>	2017			
	Cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	₩ 10,546,728	₩ -	₩ -	₩ 10,546,728
Buildings	29,756,563	(12,985,734)	-	16,770,829
Structures	521,000	(209,279)	-	311,721
Vehicles	748,128	(556,121)	-	192,007
Supplies	813,293	(687,011)	-	126,282
Construction in progress	333,107	-	(301,888)	31,219
	<u>₩ 42,718,819</u>	<u>₩ (14,438,145)</u>	<u>₩ (301,888)</u>	<u>₩ 27,978,786</u>

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(in thousands of Korean won)

	2016			
	Cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	₩ 10,546,728	₩ -	₩ -	₩ 10,546,728
Buildings	29,756,563	(12,246,131)	-	17,510,432
Structures	521,000	(193,255)	-	327,745
Vehicles	683,026	(683,024)	-	2
Supplies	795,693	(587,144)	-	208,549
Construction in progress	301,888	-	(301,888)	-
	<u>₩ 42,604,898</u>	<u>₩ (13,709,554)</u>	<u>₩ (301,888)</u>	<u>₩ 28,593,456</u>

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

(in thousands of Korean won)

	2017				
	Opening net book amount	Acquisition	Disposal	Depreciation	Closing net book amount
Land	₩ 10,546,728	₩ -	₩ -	₩ -	₩ 10,546,728
Buildings	17,510,432	-	-	(739,603)	16,770,829
Structures	327,745	-	-	(16,024)	311,721
Vehicles	2	200,354	(2)	(8,347)	192,007
Supplies	208,549	17,600	-	(99,867)	126,282
Construction in progress	-	31,219	-	-	31,219
	<u>₩ 28,593,456</u>	<u>₩ 249,173</u>	<u>₩ (2)</u>	<u>₩ (863,841)</u>	<u>₩ 27,978,786</u>

(in thousands of Korean won)

	2016				
	Opening net book amount	Acquisition	Disposal	Depreciation	Closing net book amount
Land	₩ 10,546,728	₩ -	₩ -	₩ -	₩ 10,546,728
Buildings	18,024,284	314,080	-	(827,932)	17,510,432
Structures	343,769	-	-	(16,024)	327,745
Vehicles	2	-	-	-	2
Supplies	203,509	86,650	(2)	(81,608)	208,549
	<u>₩ 29,118,292</u>	<u>₩ 400,730</u>	<u>₩ (2)</u>	<u>₩ (925,564)</u>	<u>₩ 28,593,456</u>

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12. Investment Properties

Details of investment properties as at the end of the reporting period, are as follows:

(in thousands of Korean won)

	2017		
	Cost	Accumulated depreciation	Book amount
Land	₩ 15,662,650	₩ -	₩ 15,662,650
Buildings	23,403,620	(15,028,619)	8,375,001
	<u>₩ 39,066,270</u>	<u>₩ (15,028,619)</u>	<u>₩ 24,037,651</u>

(in thousands of Korean won)

	2016		
	Cost	Accumulated depreciation	Book amount
Land	₩ 15,662,650	₩ -	₩ 15,662,650
Buildings	23,403,620	(14,364,737)	9,038,883
	<u>₩ 39,066,270</u>	<u>₩ (14,364,737)</u>	<u>₩ 24,701,533</u>

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

(in thousands of Korean won)

	2017		
	Beginning balance	Depreciation	Ending balance
Land	₩ 15,662,650	₩ -	₩ 15,662,650
Buildings	9,038,883	(663,882)	8,375,001
	<u>₩ 24,701,533</u>	<u>₩ (663,882)</u>	<u>₩ 24,037,651</u>

(in thousands of Korean won)

	2016		
	Beginning balance	Depreciation	Ending balance
Land	₩ 15,662,650	₩ -	₩ 15,662,650
Buildings	9,871,530	(832,647)	9,038,883
	<u>₩ 25,534,180</u>	<u>₩ (832,647)</u>	<u>₩ 24,701,533</u>

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

<i>(in thousands of Korean won)</i>	2017		2016	
Rental sales	₩	4,510,465	₩	4,520,940
Rental income		2,223,475		2,216,589
Operating expenses		2,242,896		2,627,579

Fair value of investment properties at the end of the reporting period, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
Book amount	₩	24,037,651	₩	24,701,533
Fair value		107,529,143		103,929,948

13. Intangible Assets

Intangible assets as at the end of the reporting period, consist of:

<i>(in thousands of Korean won)</i>	2017		
	Cost	Accumulated amortization	Book amount
Industrial rights	₩ 5,428,616	₩ (2,852,655)	₩ 2,575,961
Membership rights	5,307,996	-	5,307,996
Construction in progress	824,076	-	824,076
	<u>₩ 11,560,688</u>	<u>₩ (2,852,655)</u>	<u>₩ 8,708,033</u>

<i>(in thousands of Korean won)</i>	2016		
	Cost	Accumulated amortization	Book amount
Industrial rights	₩ 4,259,725	₩ (2,084,984)	₩ 2,174,741
Membership rights	5,307,996	-	5,307,996
Construction in progress	1,473,876	-	1,473,876
	<u>₩ 11,041,597</u>	<u>₩ (2,084,984)</u>	<u>₩ 8,956,613</u>

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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	Amortization	Transfer	Ending balance
Industrial rights	₩ 2,174,741	₩ 122,267	₩ (767,671)	₩ 1,046,624	₩ 2,575,961
Membership rights	5,307,996	-	-	-	5,307,996
Construction in progress	1,473,876	396,824	-	(1,046,624)	824,076
	<u>₩ 8,956,613</u>	<u>₩ 519,091</u>	<u>₩ (767,671)</u>	<u>₩ -</u>	<u>₩ 8,708,033</u>

(in thousands of Korean won)

	2016				
	Beginning balance	Acquisition	Amortization	Transfer	Ending balance
Industrial rights	₩ 766,407	₩ 126,530	₩ (463,360)	₩ 1,745,164	₩ 2,174,741
Membership rights	5,307,996	-	-	-	5,307,996
Construction in progress	2,902,253	316,787	-	(1,745,164)	1,473,876
	<u>₩ 8,976,656</u>	<u>₩ 443,317</u>	<u>₩ (463,360)</u>	<u>₩ -</u>	<u>₩ 8,956,613</u>

14. Other Payables

Details of other current and non-current payables as at the end of the reporting period, are as follows:

(in thousands of Korean won)

	2017		2016	
	Current	Non-current	Current	Non-current
Non-trade payables	₩ 4,231,633	₩ -	₩ 4,588,691	₩ -
Accrued expenses	400,580	-	409,027	-
Dividend payables	66,585	-	65,873	-
Leasehold deposits received	8,900,911	-	2,301,861	6,668,342
	<u>₩ 13,599,709</u>	<u>₩ -</u>	<u>₩ 7,365,452</u>	<u>₩ 6,668,342</u>

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15. Other Liabilities

Details of current and non-current other liabilities as at the end of the reporting period, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
	Current	Non-current	Current	Non-current
Withholdings	₩ 2,969,718	₩ -	₩ 2,384,008	₩ -
Other long-term employee benefits	-	257,657	-	269,238
	₩ 2,969,718	₩ 257,657	₩ 2,384,008	₩ 269,238

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

<i>(in thousands of Korean won)</i>	2017			
	Beginning balance	Profit or loss	Payment	Ending balance
Other long-term employee benefits	₩ 269,238	₩ 11,776	₩ (23,357)	₩ 257,657

<i>(in thousands of Korean won)</i>	2016			
	Beginning balance	Profit or loss	Payment	Ending balance
Other long-term employee benefits	₩ 222,740	₩ 63,532	₩ (17,034)	₩ 269,238

16. Net Defined Benefit Liabilities

The Company operates a 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 plan, the Company is exposed to the risk of the 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 Securities Co., Ltd. Present value of the defined benefit obligation, its related current service cost and past service cost have been measured by the projected unit credit method.

Details of net defined benefit liabilities recognized in the statements of financial position at the end

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of the reporting periods, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
Present value of defined benefit obligations	₩	20,328,533	₩	20,052,202
Fair value of plan assets		<u>(19,871,198)</u>		<u>(20,053,166)</u>
Net defined benefit liabilities (assets)	₩	<u>457,335</u>	₩	<u>(964)</u>

The significant actuarial assumptions used in defined benefit obligations assessment at the end of the reporting periods, are as follows:

<i>(in percentage)</i>	2017		2016	
Discount rate		3.8%		3.4%
Expected rate of salary increase		6.6%		6.9%

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

<i>(in thousands of Korean won)</i>	2017		
	Present value of defined benefit obligations	Fair value of plan assets	Total
Beginning balance	₩ 20,052,202	₩ (20,053,166)	₩ (964)
Current service cost	2,970,921	-	2,970,921
Interest expense (income)	676,299	<u>(634,493)</u>	41,806
	<u>3,647,220</u>	<u>(634,493)</u>	<u>3,012,727</u>
Remeasurements:			
Return on plan assets (excluding amounts included in net interest)	-	269,110	269,110
Actuarial gain from change in demographic assumptions	(10,821)	-	(10,821)
Actuarial gain from change in financial assumptions	(628,022)	-	(628,022)
Actuarial gain from experience adjustments	(1,935,896)	-	(1,935,896)
	<u>(2,574,739)</u>	<u>269,110</u>	<u>(2,305,629)</u>
Benefits payments	(796,150)	547,351	(248,799)
Others	-	-	-
Ending balance	₩ 20,328,533	₩ (19,871,198)	₩ 457,335

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<i>(in thousands of Korean won)</i>	2016		
	Present value of defined benefit obligations	Fair value of plan assets	Total
Beginning balance	₩ 15,583,429	₩ (17,051,460)	₩ (1,468,031)
Current service cost	4,275,062	-	4,275,062
Interest expense (income)	523,641	(543,627)	(19,986)
	<u>4,798,703</u>	<u>(543,627)</u>	<u>4,255,076</u>
Remeasurements:			
Return on plan assets (excluding amounts included in net interest)	-	212,943	212,943
Actuarial gain from change in demographic assumptions	(57,285)	-	(57,285)
Actuarial gain from change in financial assumptions	(45,949)	-	(45,949)
Actuarial loss from experience adjustments	678,087	-	678,087
	<u>574,853</u>	<u>212,943</u>	<u>787,796</u>
Benefits payments	(769,683)	1,570,313	800,630
Others	(135,100)	(4,241,335)	(4,376,435)
Ending balance	<u>₩ 20,052,202</u>	<u>₩ (20,053,166)</u>	<u>₩ (964)</u>

When significant actuarial assumptions vary within a reasonable range with all other assumptions held constant at the end of the reporting periods, the effects on the defined benefit obligations are as follows:

<i>(in thousands of Korean won)</i>	2017	
	Increase	Decrease
1% change of discount rate	₩ (1,190,363)	₩ 1,409,297
1% change of salary growth rate	1,390,960	(1,198,179)

<i>(in thousands of Korean won)</i>	2016	
	Increase	Decrease
1% change of discount rate	₩ (1,404,969)	₩ 1,684,467
1% change of salary growth rate	1,658,539	(1,411,418)

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

(in thousands of Korean won)

	2016			
	Increase		Decrease	
Current service cost	₩	2,970,921	₩	4,275,062
Interest cost		41,806		(19,986)
	₩	3,012,727	₩	4,255,076

Plan assets as at the end of the reporting period, consist of:

(in thousands of Korean won)

	2017		2016	
	Total	Composition	Total	Composition
Debt instruments	₩ 17,853,354	89.8%	₩ 11,323,077	56.5%
Deposits	2,017,836	10.2%	1,960,934	9.8%
Cash and cash equivalents	8	0.0%	6,769,155	33.7%
	₩ 19,871,198	100.0%	₩ 20,053,166	100.0%

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 ₩ 2,992,506 thousand (2017: ₩ 2,969,924 thousand). Such expected contributions include the non-deductible amount of ₩ 1,886,582 thousand, which will decrease due to reorganization and are detailed in Note 16.

The expected maturity analysis of undiscounted pension benefits as at the end of the reporting period, is as follows:

(in thousands of Korean won)

	2017				
	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Pension benefits ¹	₩ 449,057	₩ 655,306	₩ 1,977,818	₩ 33,685,709	₩ 36,767,890

¹ The amount, which will decrease due to reorganization, is not reflected (Note 16).

(in thousands of Korean won)

	2016				
	Less than 1 year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
Pension benefits	₩ 442,503	₩ 537,552	₩ 2,214,749	₩ 34,138,053	₩ 37,332,857

The weighted average duration of the defined benefit obligation is 12.4 years (2016: 12.0 years).

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Due to reorganization of its holding company, the Company transferred the control over some organizations to Hankook Tire Co., Ltd., its associate, as at January 1, 2018. As a result, defined benefit obligations and plan assets decreased by ₩ 15,498,330 thousand and ₩ 15,149,661 thousand, as at January 1, 2018.

17. Share Capital

Details of share capital as at the end of the reporting period, 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 share	93,020,173	93,020,173
Share capital: Ordinary share	<u>₩ 46,510,086,500</u>	<u>₩ 46,510,086,500</u>

18. Other Paid-in-Capital

Details of other paid-in-capital as at the end of the reporting period, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Share premium	₩ 1,302,628,300	₩ 1,302,628,300
Treasury shares	(11,092,609)	(11,092,609)
	<u>₩ 1,291,535,691</u>	<u>₩ 1,291,535,691</u>

As at December 31, 2017, the Company holds 1,325,090 ordinary shares in treasury, to stabilize the market price of its shares, and records treasury share as other paid-in capital. Further appropriation of them is not determined.

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19. Retained Earnings and Dividends

Retained earnings as the end of the reporting period, consist of:

<i>(in thousands of Korean won)</i>	2017	2016
Legal reserve:		
Earned profit reserve ¹	₩ 19,260,011	₩ 16,509,158
	<u>19,260,011</u>	<u>16,509,158</u>
Discretionary reserve:		
Reserve for revaluation ²	443,289,239	443,289,239
Dividend equalization reserve	60,000,000	60,000,000
Director's retirement bonus reserve	93,918,000	93,918,000
Voluntary reserve	110,000,000	110,000,000
	<u>707,207,239</u>	<u>707,207,239</u>
Unappropriated retained earnings	141,370,856	124,282,690
	<u>₩ 867,838,106</u>	<u>₩ 847,999,087</u>

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

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

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

<i>(in thousands of Korean won)</i>	2017	2016
Beginning balance	₩ 847,999,087	₩ 831,346,183
Profit for the year	45,599,877	44,758,579
Dividend payments	(27,508,525)	(27,508,525)
Remeasurements of net defined benefit liabilities (assets)	1,747,667	(597,150)
Ending balance	<u>₩ 867,838,106</u>	<u>₩ 847,999,087</u>

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Details of dividend payments as at the end of the reporting period are as follow, and the dividends will be paid after approval of the shareholders at the annual general meeting.

<i>(in thousands of Korean won, except for number of shares)</i>	2017	2016
Outstanding shares issued (in shares)	93,020,173	93,020,173
Treasury shares (in shares)	1,325,090	1,325,089
Dividend shares (in shares)	91,695,083	91,695,084
Dividend per share	₩ 300	₩ 300
Total dividend	<u>₩ 27,508,524,900</u>	<u>₩ 27,508,525,200</u>

Dividend distribution to the Company's shareholders amounted to ₩ 27,508,525 thousand (paid in 2016: ₩ 27,508,525 thousand) for the year ended December 31, 2016, was paid in April, 2017.

Details of separate statements of appropriation of retained earnings for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
1. Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	₩ 94,023,311,829	₩ 80,121,260,446
Remeasurements of net defined benefit liabilities (assets)	1,747,666,407	(597,149,676)
Profit for the period	<u>45,599,877,309</u>	<u>44,758,578,779</u>
	<u>141,370,855,545</u>	<u>124,282,689,549</u>
2. Transfers such as discretionary reserves	-	-
3. Appropriation of retained earnings		
Earned profit reserves	2,750,852,520	2,750,852,520
Cash dividends (Dividends per share:		
2017: ₩300 (60%)		
2016: ₩300 (60%))	<u>27,508,524,900</u>	<u>27,508,525,200</u>
	<u>30,259,377,420</u>	<u>30,259,377,720</u>
4. Unappropriated retained earnings to be carried forward	<u>₩ 111,111,478,125</u>	<u>₩ 94,023,311,829</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.

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20. Other Components of Equity

Changes in other components of equity for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017			
	Beginning balance	Decrease¹	Reclassification to profit or loss	Ending balance
Changes in the fair value of AFS financial assets	₩ 1,516,715	₩ (941,926)	₩ (203,285)	₩ 371,504

¹ Amount of tax effect is deducted.

(in thousands of Korean won)

	2016			
	Beginning balance	Increase¹	Reclassification to profit or loss	Ending balance
Changes in the fair value of AFS financial assets	₩ 1,512,351	₩ 4,364	₩ -	₩ 1,516,715

¹ Amount of tax effect is deducted.

21. Operating income

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

(in thousands of Korean won)

	2017		2016	
Rental sales	₩	4,510,465	₩	4,520,940
Training center sales		219		41,107
Service sales		20,851,546		23,385,230
Trademark right revenue		48,735,137		47,887,401
Dividend income		13,329,236		14,465,650
	₩	<u>87,426,603</u>	₩	<u>90,300,328</u>

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22. Operating Expenses

Operating expenses for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016
Payroll	₩ 22,623,869	₩ 22,250,043
Post-employment benefits	2,970,889	4,255,076
Employee benefits	2,392,167	2,154,869
Training expenses	1,108,265	1,497,721
Travel expenses	781,106	895,447
Vehicles maintenance expenses	80,289	60,757
Insurance	187,341	172,761
Taxes and dues	922,656	937,438
Entertainment expenses	430,740	419,646
Supplies expenses	102,461	121,011
Publication expenses	496,333	398,712
Communication expenses	99,692	104,851
Utility expenses	826,754	846,971
Repairs expenses	361,530	405,758
Conference expenses	20,319	41,844
Service fees	5,399,916	4,779,851
Depreciation of investment property	663,882	832,647
Depreciation of property, plant and equipment	863,841	925,564
Amortization of intangible assets	767,671	463,360
Service expenses	677,901	627,542
Advertisement	2,937,389	3,454,831
Miscellaneous expenses	286,316	609,524
	<u>₩ 45,001,327</u>	<u>₩ 46,256,224</u>

Hankook Tire Worldwide Co., Ltd.
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23. Finance Income and Finance Costs

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

<i>(in thousands of Korean won)</i>	2017	2016
Finance income		
Interest income	₩ 8,353,304	₩ 9,614,387
Gains on foreign currency transaction	713,111	313,870
Gains on foreign currency translation	-	102
Gains on disposal of AFS financial assets	4,886,840	2,467,093
Gains on valuation and disposal of financial assets at fair value through profit or loss	1,064,177	72,360
	<u>₩ 15,017,432</u>	<u>₩ 12,467,812</u>
Finance costs		
Losses on foreign currency transaction	₩ 404,859	₩ 512,127
Losses on foreign currency translation	906	-
Losses on valuation and disposal of financial assets at fair value through profit or loss	362,723	-
	<u>₩ 768,488</u>	<u>₩ 512,127</u>

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24. Other Non-operating Income and Expenses

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

<i>(in thousands of Korean won)</i>	2017	2016
Other non-operating income		
Gains on foreign currency transaction	₩ 15,721	₩ 2,156,783
Gains on foreign currency translation	1,267	3
Gain on foreign exchange forward contracts transaction	1,927,812	-
Gains on valuation of foreign exchange forward contracts	-	2,309,748
Rental income	2,223,475	2,216,589
Gains on disposal of property, plant and equipment	5,569	-
Miscellaneous gain	143,551	152,564
	<u>₩ 4,317,395</u>	<u>₩ 6,835,687</u>
Other non-operating expenses		
Losses on foreign currency transaction	₩ 2,353,815	₩ 99,688
Losses on foreign currency translation	52	2,253,201
Losses on foreign exchange forward contracts transaction	-	2,468,315
Losses on disposal of property, plant and equipment	-	1
Donation	2,801,400	3,100,110
Miscellaneous loss	22,888	42,302
	<u>₩ 5,178,155</u>	<u>₩ 7,963,617</u>

25. 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>	2017	2016
Current tax:		
Current tax on profits for the year	₩ 11,202,017	₩ 8,949,764
Adjustments in respect of prior years	(350,241)	-
Deferred tax:		
Origination and reversal of temporary differences	(445,852)	974,262
Charged or credited directly to equity	(192,341)	189,254
Income tax expense	<u>₩ 10,213,583</u>	<u>₩ 10,113,280</u>

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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>	2017		2016	
Profit before income tax expense	₩	55,813,460	₩	54,871,859
Tax at domestic tax rates applicable to profits in the respective countries		13,044,857		12,816,990
Tax effects of:				
Income not subject to tax		(2,491,710)		(2,702,908)
Expenses not deductible for tax purposes		95,540		92,597
Others		(435,104)		(93,399)
		<u>(2,831,274)</u>		<u>(2,703,710)</u>
Income tax expense	₩	<u>10,213,583</u>	₩	<u>10,113,280</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>	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of net defined benefit liabilities (assets)	₩ 2,305,629	₩ (557,962)	₩ 1,747,667	₩ (787,796)	₩ 190,647	₩ (597,149)
Changes in the fair value of AFS financial assets	<u>(1,510,832)</u>	<u>365,621</u>	<u>(1,145,211)</u>	<u>5,757</u>	<u>(1,393)</u>	<u>4,364</u>
	<u>₩ 794,797</u>	<u>₩ (192,341)</u>	<u>₩ 602,456</u>	<u>₩ (782,039)</u>	<u>₩ 189,254</u>	<u>₩ (592,785)</u>

The tax effect reflected directly in equity for the years ended December 31, 2017 and 2016, is as follows:

<i>(in thousands of Korean won)</i>	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in the fair value of AFS financial assets	₩ 490,111	₩ (118,607)	₩ 371,504	₩ 2,000,943	₩ (484,228)	₩ 1,516,715

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The analysis of deferred tax assets and liabilities as at the end of the reporting period is as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
Deferred tax assets				
Deferred tax asset to be recovered after more than 12 months	₩	5,658,837	₩	5,277,570
Deferred tax asset to be recovered within 12 months		79,139		83,467
		<u>5,737,976</u>		<u>5,361,037</u>
Deferred tax liabilities				
Deferred tax liability to be recovered after more than 12 months		64,138,592		63,715,994
Deferred tax liability to be recovered within 12 months		341,438		832,949
		<u>64,480,030</u>		<u>64,548,943</u>
Deferred tax liabilities, net	₩	<u>(58,742,054)</u>	₩	<u>(59,187,906)</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>	2017			
	Beginning balance	Statement of profit or loss	Other comprehensive income	Ending balance
Deferred tax assets (liabilities)				
Unearned revenue	₩ (817,706)	₩ 476,268	₩ -	₩ (341,438)
Other long-term employee benefits	65,156	(2,803)	-	62,353
Accrued expenses	83,467	(4,328)	-	79,139
Property, plant and equipment	2,315,513	19,861	-	2,335,374
Net defined benefit liabilities	(319,857)	211,222	(557,962)	(666,597)
Derivative financial instruments	(15,243)	15,243	-	-
Gains and losses on foreign currency translation	-	-	-	-
Financial assets at fair value through profit or loss	(17,511)	(75,857)	-	(93,368)
Intangible assets	202,934	(1,413)	-	201,521
Construction in progress	232,760	-	-	232,760
AFS financial assets	2,461,207	-	365,621	2,826,828
Advanced depreciation provision	(2,556,024)	-	-	(2,556,024)
Investments in subsidiaries and associates	(60,822,602)	-	-	(60,822,602)
	<u>₩ (59,187,906)</u>	<u>638,193</u>	<u>(192,341)</u>	<u>(58,742,054)</u>

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<i>(in thousands of Korean won)</i>	2016			
	Beginning balance	Statement of profit or loss	Other comprehensive income	Ending balance
Deferred tax assets (liabilities)				
Unearned revenue	₩ (353,025)	₩ (464,681)	₩ -	₩ (817,706)
Other long-term employee benefits	53,903	11,253	-	65,156
Accrued expenses	16,615	66,852	-	83,467
Property, plant and equipment	2,235,530	79,983	-	2,315,513
Net defined benefit liabilities	(482,174)	(28,330)	190,647	(319,857)
Derivative financial instruments	647,971	(663,214)	-	(15,243)
Gains and losses on foreign currency translation	(781,741)	781,741	-	-
Financial assets at fair value through profit or loss	-	(17,511)	-	(17,511)
Intangible assets	203,888	(954)	-	202,934
Construction in progress	232,760	-	-	232,760
AFS financial assets	3,391,255	(928,655)	(1,393)	2,461,207
Advanced depreciation provision	(2,556,024)	-	-	(2,556,024)
Investments in subsidiaries and associates	(60,822,602)	-	-	(60,822,602)
	<u>₩ (58,213,644)</u>	<u>₩ (1,163,516)</u>	<u>₩ 189,254</u>	<u>₩ (59,187,906)</u>

Details of unrecognized deductible (taxable) temporary differences as deferred tax assets (liabilities) as at the end of the reporting period, are as follows:

<i>(in thousands of Korean won)</i>	2017	2016	Remarks
Interests in subsidiaries and associates	₩ 1,165,191,376	₩ 1,165,191,376	No plan for disposal

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26. 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>	2017	2016
Adjustments for:		
Income tax expense	₩ 10,213,583	₩ 10,113,280
Losses on foreign currency translation	958	2,253,201
Losses on foreign exchange forward transaction	-	2,468,315
Losses on disposal of property, plant and equipment	-	1
Depreciation of investment property	663,882	832,647
Depreciation of property, plant and equipment	863,841	925,564
Amortization of intangible assets	767,671	463,360
Other long-term employee benefits	11,776	63,532
Post-employment benefit obligations	3,012,727	4,255,076
Miscellaneous losses	-	3
Losses on foreign currency transaction	2,344,720	-
Losses on valuation and disposal of financial assets at fair value through profit or loss	362,723	-
Interest income	(8,353,304)	(9,614,387)
Dividend received	(13,329,236)	(14,465,650)
Gains on foreign currency translation	(1,266)	(105)
Gains on disposal of property, plant and equipment	(5,569)	-
Gains on foreign exchange forward transaction	(1,927,812)	-
Gains on valuation of foreign exchange forward contracts	-	(2,309,748)
Gains on disposal of AFS financial assets	(4,886,840)	(2,467,093)
Gains on valuation and disposal of financial assets at fair value through profit or loss	(1,064,177)	(72,360)
	<u>₩ (11,326,323)</u>	<u>₩ (7,554,364)</u>

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<i>(in thousands of Korean won)</i>	2017	2016
Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	₩ 2,412,684	₩ (1,363,764)
Decrease in non-trade receivables	31,271	1,004
Decrease in advance payments	-	5,000
Decrease (increase) in prepaid expenses	253	(3,847)
Decrease (increase) in leasehold deposits received	(69,293)	4,144
Decrease in non-trade payables	(359,849)	(653,074)
Increase (decrease) in accrued expenses	(8,446)	276,251
Increase in withholdings	585,709	1,054,277
Decrease in post-employment benefit obligation	(796,149)	(769,683)
Increase in pension plan assets	547,350	1,570,313
Decrease in other long-term employee benefits	(23,357)	(17,034)
	<u>₩ 2,320,173</u>	<u>₩ 103,587</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>	2017	2016
Transfer of construction in progress to intangible assets	₩ 1,046,624	₩ 1,745,164
Increase in non-trade payables in relation to acquisition of property, plant and equipment	31,219	51,700
Increase in non-trade payables in relation to acquisition of intangible assets	77,676	52,477
Decrease in non-trade payables in relation to acquisition of property, plant and equipment	51,700	-
Decrease in non-trade payables in relation to acquisition of intangible assets	52,477	83,764
Increase in non-trade receivables in relation to disposal of AFS financial assets	9,712,548	-

As there are no cash flows from financing activities, except for dividends paid, changes in liabilities arising from financing activities are identical to the cash flows from financing activities in the statement of cash flows for the year ended December 31, 2017.

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27. 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
Subsidiaries	Atlas BX Co., Ltd., Atlas BX Motorsports Co., Ltd., Atlasbx America Corporation, HK AUTOMOTIVE CO., LTD., FLYING MOTORS CO.,LTD., HK Motors Co., Ltd.
Associates	Hankook Tire Co., Ltd., EmFrontier, Inc.
Domestic subsidiaries of associates	Daehwa Engineering & Machinery Co., Ltd., MK Technology Corp., Hankook Donggeurami Partners Co., Ltd.
Overseas subsidiaries of associates	Hankook Tire America Corp., Hankook Tyre U.K. Ltd., Jiangsu Hankook Tire Co., Ltd., Hankook Tire China Co., Ltd., Shanghai Hankook Tire Sales Co., Ltd., Hankook Tire Netherlands B.V., Hankook Tire Japan Corp., Hankook Tire Canada Corp., Hankook Reifen Deutschland GmbH, Hankook Tire France SARL, Hankook Tire Italia S.R.L., Hankook Espana S.A., Hankook Tyre Australia Pty., Ltd., Hankook Tire Hungary Ltd., Hankook Tire Europe Holdings B.V, Hankook Tire Europe GmbH, Hankook Tire Budapest Kereskedelmi Kft, Hankook Tire DE Mexico, S.A. DE C.V., Chongqing Hankooktire Co., Ltd., Hankook Tire Rus LLC, PT. 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 Tire Thailand Co.,Ltd., Hankook Lastikleri A.S., Hankook Tire Polska Sp. z o.o., Hankook Tire de Colombia Ltda., Hankook Tire America Holdings I, LLC, Hankook Tire America Holdings II, LLC, Hankook Tire Manufacturing Tennessee LP, Hankook Tire Ceska Republika s.r.o. MK Technology (CHONGQING) Mould Co., Ltd., PT. EMFRONTIER ENS Indonesia, Emfrontier America Inc., 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 associate of associates	Hanon Systems Co., Ltd.
Other related parties ¹	Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery Jiaxing Co., Ltd., Another WTE Co., Ltd., H-2 WTE Co., Ltd., Another Geumsan Co., Ltd., YOUKNOWTECH CO., LTD.

¹ 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.

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

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

(in thousands of Korean won)

		2017			
	Name of entity	Operating income ¹	Operating expenses	Other income	Other expenses
Subsidiaries	Atlas BX Co., Ltd.	₩ 854,605	₩ -	₩ -	₩ -
	HK AUTOMOTIVE CO., LTD.	-	-	6,060	-
	HK Motors Co., Ltd.	-	14,850	-	-
Associates	Hankook Tire Co., Ltd.	84,267,340	111,892	1,015,352	-
	EmFrontier, Inc.	-	180,500	-	-
Domestic subsidiaries of associates	Hankook Donggeurami Partners Co., Ltd.	5,700	231,672	2,580	-
	Daehwa Engineering & Machinery Co., Ltd.	-	-	-	2,035
Overseas subsidiaries of associates	Hankook Tire Netherlands B.V. and others	-	102,139	787,399	-
Other related parties	Shin-Yang Tourist Development and others	-	2,148,397	5,814	-
		₩ 85,127,645	₩ 2,789,450	₩ 1,817,205	₩ 2,035

¹ Dividends received from the subsidiaries and associates are included.

(in thousands of Korean won)

		2016		
	Name of entity	Operating income ¹	Operating expenses	Other income
Subsidiary	Atlas BX Co., Ltd.	₩ 1,996,555	₩ -	₩ -
Associates	Hankook Tire Co., Ltd.	85,934,733	114,808	1,015,892
	EmFrontier, Inc.	488	120,496	-
Domestic subsidiary of associates	Hankook Donggeurami Partners Co., Ltd.	-	187,769	-
Overseas subsidiaries of associates	Chongqing Hankooktire Co., Ltd. and others	-	204,913	2,230,108
Other related parties	Shin-Yang Tourist Development and others	-	2,084,369	5,814
		₩ 87,931,776	₩ 2,712,355	₩ 3,251,814

¹ Dividends received from the subsidiaries and associates are included.

Hankook Tire Worldwide Co., Ltd.
Notes to the Separate Financial Statements
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Outstanding balances of receivables and payables at the end of the reporting period, are as follows:

(in thousands of Korean won)

		2017				
	Name of entity	Trade receivables	Other receivables	Non-trade payables	Other payables	
Subsidiary	HK AUTOMOTIVE CO., LTD.	₩ -	₩ 667	₩ -	₩ -	13,321
Associates	Hankook Tire Co., Ltd.	26,648,034	-	104,191		1,859,096
	EmFrontier, Inc.	-	-	33,139		-
Domestic subsidiaries of associates	Hankook Donggeurami Partners Co., Ltd.	-	-	1,903		4,650
	Daehwa Engineering & Machinery Co., Ltd.	-	-	2,238		-
Overseas subsidiaries of associates	Hankook Tire Netherlands B.V. and others	-	263,846	7,623		-
Other related parties	Shin-Yang Tourist Development and others	-	-	224,658		105,503
		₩ 26,648,034	₩ 264,513	₩ 373,752	₩ -	₩ 1,982,570

(in thousands of Korean won)

		2016				
	Name of entity	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables
Associates	Hankook Tire Co., Ltd.	₩ 29,060,712	₩ -	₩ -	₩ 6,165	₩ 1,859,096
	EmFrontier, Inc.	-	-	-	31,691	-
Domestic subsidiary of associates	Hankook Donggeurami Partners Co., Ltd.	-	-	-	18,542	-
Overseas subsidiaries of associates	Hankook Tire Netherlands B.V. and others	-	54,750,160	1,166,330	56,835	-
Other related parties	Shin-Yang Tourist Development and others	-	-	-	191,355	105,503
		₩ 29,060,712	₩ 54,750,160	₩ 1,166,330	₩ 304,588	₩ 1,964,599

Hankook Tire Worldwide 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:

(in thousands of Korean won)

		2017				
		Beginning balance	Increase	Repayments	Exchange differences	Ending balance
Hankook Tire Netherlands B.V.	Short-term loans	₩ 54,750,160	₩ -	₩ (52,405,440)	(2,344,720)	₩ -

(in thousands of Korean won)

		2016					
		Beginning balance	Increase	Repayments	Exchange differences	Transfer	Ending balance
Chongqing Hankooktire Co., Ltd.	Short-term loans	₩ 35,160,000	₩ -	₩ (92,213,800)	₩ -	₩ 57,053,800	₩ -
	Long-term loans	57,053,800	-	-	-	(57,053,800)	-
Hankook Tire Netherlands B.V.	Short-term loans	-	56,996,920	-	(2,246,760)	-	54,750,160
		<u>₩ 92,213,800</u>	<u>₩ 56,996,920</u>	<u>₩ (92,213,800)</u>	<u>₩ (2,246,760)</u>	<u>₩ -</u>	<u>₩ 54,750,160</u>

Dividend income and contributions in cash from/to related parties for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

		2017		2016	
Name of entity		Dividend income	Contributions in cash	Dividend income	Contributions in cash
Subsidiaries	Atlas BX Co., Ltd.	₩ 854,605	₩ -	₩ 1,994,080	₩ -
	HK AUTOMOTIVE CO., LTD.	-	10,000,000	-	-
Associate	Hankook Tire Co., Ltd.	12,469,811	-	12,469,811	-
		<u>₩ 13,324,416</u>	<u>₩ 10,000,000</u>	<u>₩ 14,463,891</u>	<u>₩ -</u>

The Company provides joint surety with Hankook Tire Co., Ltd. For the liabilities incurred before the spin-off. The remaining guarantees provided by the Company jointly and severally at the end of reporting periods are as follows:

(in thousands of Korean won and thousands of HUF)

		2017		2016	
		Foreign currency	Korean won	Foreign currency	Korean won
HUF ¹		-	₩ -	15,881,000	₩ 64,794,480

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

¹ The above guarantee amount includes direct suretyship provided to the Hungarian Government as follows, and the payment guarantee was expired as at December 31, 2017.

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

The Company is providing joint and several guarantee for a credit facility agreement at the end of the reporting periods as follows:

(in thousands of Korean won and thousands of USD)

	2017		2016	
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
USD	70,000	₩ 74,998,000	70,000	₩ 84,595,000

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

(in thousands of Korean won)

	2017		2016	
Short-term benefits	₩	8,834,308	₩	6,925,561
Post-employment benefits		889,358		2,536,408
	₩	<u>9,723,666</u>	₩	<u>9,461,969</u>

Key management refers to the directors (registered and non-registered) and audit committee members who have significant authority and responsibility in respect to planning, operating and controlling of the Company's business activities.

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

28. Contingencies and Commitments

Details of outstanding credit facility agreements of the Company at the end of the reporting period, are as follows:

(in thousands on Korean won and thousands of USD and CNY)

		2017		2016	
		Commitment amount	Korean won	Commitment amount	Korean won
Purchase card agreements	Shinhan Bank	KRW 10,000,000	₩ 10,000,000	KRW 10,000,000	₩ 10,000,000
Bank overdraft agreements	Woori Bank and others	KRW 5,000,000	5,000,000	KRW 5,000,000	5,000,000
Agreements to forward exchange contracts	Citi Bank and others	CNY -	-	CNY 316,000	54,750,160
		KRW 15,000,000		KRW 15,000,000	
		USD -	₩ 15,000,000	USD -	₩ 69,750,160
		CNY -		CNY 316,000	

As at December 31, 2017, the Company entered into supply contracts to provide trademark license and supporting work with Hankook Tire Co., Ltd., a related party, and to be provided maintenance service for the Company's information system with EmFrontier, Inc., an associate.

29. Operating Segment Information

The Company had a single operating segment and does not disclose information by business segment.

The Company derives the following types of revenue:

(in thousands of Korean won)

	2017		2016	
Service sales	₩	25,362,230	₩	27,947,277
Trademark right revenue		48,735,137		47,887,401
Dividend income		13,329,236		14,465,650
	₩	<u>87,426,603</u>	₩	<u>90,300,328</u>

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

Revenue from external customers broken down by location of the Company for the years ended December 31, 2017 and 2016, are shown as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
Korea (headquarter)	₩	87,426,603	₩	90,300,328

Details of external customers, who contribute more than 10% of the Company's revenue for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
A Company	₩	84,267,340	₩	85,934,733

30. Earnings Per Share

The Company's basic earnings per share attributable to equity holders of Parent Company for the years ended December 31, 2017 and 2016, are computed as follows:

<i>(in Korean won, except for number of shares)</i>	2017		2016	
Profit attributable to the ordinary equity holders of Parent Company ¹	₩	45,599,877,309	₩	44,758,578,779
Weighted-average number of ordinary shares outstanding (in share) ²		91,695,084		91,695,084
Basic earnings per share	₩	497	₩	488

¹ As there are no adjustments during the reporting period, profit attributable to the ordinary equity holders of Parent Company is identical to profit attributable to owners of the Parent Company in the statements of comprehensive income.

² The Company's outstanding ordinary shares excluding the number of treasury share acquired are weighted averaged.

The Company did not issue any potential ordinary shares. Therefore, basic earnings per share is identical to diluted earnings per share.

31. Events After the Reporting Period

Due to reorganization of its holding company, the Company transferred the control over some organizations to Hankook Tire Co., Ltd., its associate, as at January 1, 2018. The transfer of assets and liabilities due to the transfer of some organizations to its associate will be carried out in accordance with legal regulations. In addition, operating income and operating expenses are expected to decline in the future as a result of the removal of departments that generate service revenue to the Company.

Report on Independent Accountant's Review of Internal Accounting Control System

To the President of Hankook tire Worldwide Co., Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Hankook tire Worldwide 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 effectively designed and is operating 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 established by IACSOC.

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 Assessment of
Internal Accounting Control System ("IACS")**

English Translation of a Report Originally Issued in Korean

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

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



Hong, Joo Woong
Internal Accounting Control Officer



Cho, Hyun Shick
Chief Executive Officer