

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

Hankook Tire Co., Ltd.

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December 31, 2016 and 2015

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

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

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

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

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

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



Opinion

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

Other Matters

The financial statements of Hankook Tire Co., Ltd. for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on March 17, 2016.

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, 2017

<p>This report is effective as of March 16, 2017, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.</p>
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Hankook Tire Co., Ltd.
Separate Statements of Financial Position
December 31, 2016 and 2015

<i>(in thousands of Korean won)</i>	Notes			2016			2015
Assets							
Current assets							
Cash and cash equivalents	6	₩	72,963,541	₩	216,889,941		
Short-term financial assets	6		94,181,814		30,066,914		
Financial assets at fair value through profit or loss	5,6		-		40,000,000		
Trade and other receivables	6,7,38		1,032,507,929		938,585,627		
Inventories	8		349,874,862		378,272,465		
Other financial assets	5,6,9		312,699,850		97,938,137		
Other current assets	10		11,935,609		9,278,917		
			<u>1,874,163,605</u>		<u>1,711,032,001</u>		
Non-current assets							
Long-term financial assets	6		12,000		12,000		
Available-for-sale financial assets	5,6,11		389,865		389,865		
Investments in associates	12		1,061,740,386		1,061,740,386		
Investments in subsidiaries	13		1,267,875,436		1,231,803,436		
Property, plant and equipment	14		1,545,616,412		1,500,907,051		
Investment properties	15		109,004,831		107,190,417		
Intangible assets	16		33,232,398		26,063,026		
Other financial assets	5,6,9		19,255,119		230,061,693		
Other non-current assets	10		57,476,980		40,155,756		
			<u>4,094,603,427</u>		<u>4,198,323,630</u>		
Total assets		₩	<u>5,968,767,032</u>	₩	<u>5,909,355,631</u>		
Liabilities							
Current liabilities							
Trade and other payables	6,17,38	₩	482,884,437	₩	609,887,179		
Borrowings	6,18		697,439,339		733,551,730		
Current tax liabilities	32		83,525,356		55,917,272		
Other provisions	19		41,642,810		42,489,127		
Other financial liabilities	5,6,20		8,546,063		7,697,024		
Other current liabilities	21		45,948,715		36,193,375		
			<u>1,359,986,720</u>		<u>1,485,735,707</u>		
Non-current liabilities							
Borrowings	6,18		499,724,432		663,081,621		
Net defined benefit liabilities	22		13,496,153		25,513,263		
Deferred tax liabilities	32		1,151,948		11,921,619		
Provisions	19		20,408,794		20,477,604		
Other financial liabilities	5,6,20		5,655,063		5,241,039		
Other non-current liabilities	21		17,344,864		15,078,149		
			<u>557,781,254</u>		<u>741,313,295</u>		
Total liabilities			<u>1,917,767,974</u>		<u>2,227,049,002</u>		
Equity							
Share capital	23		61,937,535		61,937,535		
Other paid-in capital	24		2,457,107,991		2,457,107,991		
Retained earnings	25		1,531,953,532		1,163,261,103		
Total equity			<u>4,050,999,058</u>		<u>3,682,306,629</u>		
Total liabilities and equity		₩	<u>5,968,767,032</u>	₩	<u>5,909,355,631</u>		

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

Hankook Tire Co., Ltd.
Separate Statements of Comprehensive Income
Years Ended December 31, 2016 and 2015

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

	Notes	2016	2015
Sales	26,35,38	₩ 3,312,163,223	₩ 3,358,416,967
Cost of sales	26,33,38	<u>(2,146,707,772)</u>	<u>(2,229,179,664)</u>
Gross profit		1,165,455,451	1,129,237,303
Selling and administrative expenses	27,33	(656,092,521)	(683,468,912)
Research and development expenses	33	<u>(151,544,769)</u>	<u>(134,309,769)</u>
Operating profit		357,818,161	311,458,622
Finance income	28	83,444,468	98,196,811
Finance costs	29	(117,369,770)	(104,414,885)
Other non-operating income	30	342,409,767	266,777,329
Other non-operating expense	31	<u>(99,457,728)</u>	<u>(103,755,755)</u>
Profit before income tax		566,844,898	468,262,122
Income tax expense	32	<u>(141,888,743)</u>	<u>(116,067,388)</u>
Profit for the period		<u>₩ 424,956,155</u>	<u>₩ 352,194,734</u>
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurements of net defined benefit liabilities	22	<u>(6,722,654)</u>	<u>(14,664,985)</u>
Other comprehensive income for the period, net of tax		<u>(6,722,654)</u>	<u>(14,664,985)</u>
Total comprehensive income (loss) for the period		<u>₩ 418,233,501</u>	<u>₩ 337,529,749</u>
Earnings per share			
Basic and diluted earnings per share	34	₩ 3,431	₩ 2,844

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

Hankook Tire Co., Ltd.

Separate Statements of Changes in Equity

Years Ended December 31, 2016 and 2015

(in thousands of Korean won)	Notes	Share capital	Other paid-in capital			Retained earnings	Total Equity
			Share premium	Other share premium	Treasury shares		
Balance as of January 1, 2015		₩ 61,937,535	₩ 2,459,062,742	₩ -	₩ (1,088,018)	₩ 875,272,426	₩ 3,395,184,685
Total comprehensive income for the period							
Profit for the period		-	-	-	-	352,194,734	352,194,734
Remeasurements of net defined benefit liabilities		-	-	-	-	(14,664,984)	(14,664,984)
Transactions with owners :							
Annual dividends	25	-	-	-	-	(49,541,072)	(49,541,072)
Business combination		-	-	(866,734)	-	-	(866,734)
Balance at December 31, 2015		₩ 61,937,535	₩ 2,459,062,742	₩ (866,734)	₩ (1,088,018)	₩ 1,163,261,104	₩ 3,682,306,629
Balance as of January 1, 2016		₩ 61,937,535	₩ 2,459,062,742	₩ (866,734)	₩ (1,088,018)	₩ 1,163,261,104	₩ 3,682,306,629
Total comprehensive income for the period							
Profit for the period		-	-	-	-	424,956,155	424,956,155
Remeasurements of net defined benefit liabilities		-	-	-	-	(6,722,654)	(6,722,654)
Transactions with owners :							
Annual dividends	25	-	-	-	-	(49,541,072)	(49,541,072)
Balance at December 31, 2016		₩ 61,937,535	₩ 2,459,062,742	₩ (866,734)	₩ (1,088,018)	₩ 1,531,953,533	₩ 4,050,999,058

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

Hankook Tire Co., Ltd.
Separate Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(in thousands of Korean won)

	Notes	2016	2015
Cash flows from operating activities			
Cash generated from operating activities			
Profit for the period		₩ 424,956,155	₩ 352,194,734
Adjustments	36	385,140,929	423,787,203
Changes in operating assets and liabilities	36	(241,257,079)	(23,747,955)
		<u>568,840,005</u>	<u>752,233,982</u>
Interest received		7,564,484	11,612,747
Interest paid		(24,490,515)	(15,761,739)
Income tax paid		(110,559,095)	(145,435,528)
Dividends received		35,786,664	-
Net cash inflow from operating activities		<u>477,141,543</u>	<u>602,649,462</u>
Cash flows from investing activities			
Net change in short-term financial assets		(62,169,950)	258,515,426
Net change in financial assets at fair value through profit or loss		40,000,000	15,000,000
Payments for available-for-sale securities		(20,910)	(1,415,379)
Proceeds from sale of available-for-sale securities		20,121	1,413,635
Payments for investments in associates		-	(1,061,740,386)
Payments for investments in subsidiaries		(36,072,000)	(121,073,968)
Payments for property, plant and equipment		(286,418,185)	(302,426,546)
Proceeds from sale of property, plant and equipment		9,969,634	3,806,078
Payments for investment properties		(353,509)	-
Payments for intangible assets		(14,276,227)	(808,752)
Proceeds from sale of intangible assets		-	35,474
Settlement of derivatives		931,085	12,570,500
Payments for other financial assets		(152,869,330)	(82,279,631)
Proceeds from sale of other financial assets		156,290,411	203,637,161
Proceeds from sale of long-term financial assets		-	1,000
Increase in business combination		-	44,300
Net cash outflow from investing activities		<u>(344,968,860)</u>	<u>(1,074,721,088)</u>
Cash flows from financing activities			
Decrease in short-term borrowings		(226,433,420)	(30,028,294)
Repayments of current portion of long-term borrowings		(160,000)	-
Issue of bond		-	498,530,000
Return of bond issuance cost		30,549	-
Dividends paid to shareholders	25	(49,541,072)	(49,538,641)
Net cash inflow (outflow) from financing activities		<u>(276,103,943)</u>	<u>418,963,065</u>
Net decrease in cash and cash equivalents		<u>(143,931,260)</u>	<u>(53,108,561)</u>
Cash and cash equivalents at the beginning of the financial year		216,889,941	269,511,210
Effects of exchange rate changes on cash and cash equivalents		4,860	487,292
Cash and cash equivalents at the end of the year		<u>₩ 72,963,541</u>	<u>₩ 216,889,941</u>

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

Hankook Tire Co., Ltd.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

1. General Information

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

As at December 31, 2016 and 2015, the Company's shareholders are as follows:

	2016		2015	
	Number of shares	Percentage of ownership (%)	Number of shares	Percentage of ownership (%)
Hankook Tire Worldwide Co., Ltd.	31,174,527	25.16	31,174,527	25.16
Yang Rai Cho	13,007,897	10.50	13,007,897	10.50
Hyun Bum Cho	2,561,241	2.07	2,561,241	2.07
Hyun Shick Cho	799,241	0.65	799,241	0.65
Others ¹	76,332,163	61.62	76,332,163	61.62
	<u>123,875,069</u>	<u>100.00</u>	<u>123,875,069</u>	<u>100.00</u>

¹ Including 22,388 treasury shares as at December 31, 2016.

2. Significant Accounting Policies

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

2.1 Basis of preparation

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

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

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

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Notes to the Separate Financial Statements

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

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

2.2 Changes in Accounting Policy 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, 2016. The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

- *Disclosure Initiative* – Amendments to Korean IFRS 1001 *Presentation of Financial Statements*
- Korean IFRS 1011 *Construction Contract*, Korean IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets* and Interpretation 2115 *Arrangements for Property Construction*
- *Agriculture: Bearer Plants* – Amendments to Korean IFRS 1016 *Property, Plant and Equipment*, and Korean IFRS 1041 *Agriculture*
- *Clarification of Acceptable methods of Depreciation and Amortization* – Amendments to Korean IFRS 1016 *Property, Plant and Equipment*, and Korean IFRS 1038 *Intangible assets*
- *Investment entities: Applying the Consolidation Exception* – Amendments to Korean IFRS 1110 *Consolidated Financial Statements*, Korean IFRS 1028 *Investments in Associates and Joint Ventures*, and Korean IFRS 1112 *Disclosures of Interests in Other Entities*
- *Accounting for Acquisitions of Interests in Joint Operations* – Amendments to Korean IFRS 1111 *Joint Arrangement*
- Annual Improvements to Korean IFRS 2012-2014 *Cycle*

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(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 December 31, 2016 reporting periods and have not been early adopted by the Company are set out below.

- Amendments to Korean IFRS 1007 Statement of Cash Flows

Amendments to Korean IFRS 1007 *Statement of Cash flows* requires 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. This amendment will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the separate financial statements.

- 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. This amendment will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the separate 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. The amendment clarifies 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. This amendment will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect the amendments to have a significant impact on the separate financial statements.

- Korean IFRS 1109 Financial Instruments

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

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- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Company will apply Korean IFRS 1115 *Revenue from Contracts with Customers* issued on November 6, 2015 for annual reporting periods beginning on or after January 1, 2018. Earlier adoption is permitted under Korean IFRS. 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.

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 customer can be recognized:

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

As at December 31, 2016, the Company neither prepared for internal management process nor began to adjust accounting system in relation to implementation of Korean IFRS 1115. Also, the Company did not analyze the financial effects of applying the standard. The Company plans to analyze the financial effects of applying the standard and disclose the result of the analysis in the notes on the financial statements as at September 30, 2017.

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Notes to the Separate Financial Statements

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2.3 Subsidiaries and Associates

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

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5 Financial Assets

(a) Classification and measurement

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

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 financial assets, foreign convertible bonds and securitized derivatives, as at fair value through profit or loss.

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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 that of other financial assets is directly deducted from their carrying amount. The Company writes off financial assets when the assets are determined to be no longer recoverable.

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

(c) Derecognition

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

(d) Offsetting of financial instruments

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

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2.6 Derivative Instruments

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

2.7 Inventories

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

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

2.8 Property, Plant and Equipment

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

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

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

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

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2.9 Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.10 Government Grants

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

2.11 Intangible Assets

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

Software development costs that are directly attributable to internally generated by the Company are recognized when the criteria; such as, technically feasible, generate probable future economic benefits and other, are met. 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 lives
Industrial property rights	5 - 10 years
Other intangible assets	10

2.12 Investment Property

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

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2.13 Impairment of Non-financial Assets

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

2.14 Financial Liabilities

(a) Classification and measurement

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

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

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

(b) Derecognition

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

2.15 Financial Guarantee Contracts

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

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2.16 Provisions

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

2.17 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.

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.

2.18 Employee Benefits

(a) Post-employment benefits

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

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

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

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

(b) Other long-term employee benefits

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

2.19 Revenue Recognition

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

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

(a) Sale of goods

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

(b) Rendering of services

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

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(c) Royalty income

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

(d) Interest income

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

(e) Dividend income

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

(f) Rental income

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

2.20 Segment Reporting

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

2.21 Approval of Issuance of the Financial Statements

The separate financial statements 2016 were approved for issue by the Board of Directors on March 16, 2017 and are subject to change with the approval of shareholders at their Annual General Meeting.

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3. Critical Accounting Estimates and Assumptions

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

(a) Income taxes

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

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 5).

(c) Net defined benefit liability

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

(d) Provisions

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

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4. Financial Risk Management

(a) Capital management

The Company manages its capital to ensure that entities under the Company will be able to continue while maximizing the return to shareholders through the optimization of its debt and equity balance. The Company's overall strategy remains unchanged from that of the prior periods. The Company utilizes the debt ratio as capital management index, which is the total liabilities divided by the total equity. Total liabilities and total equity are based on the amounts stated in the separate financial statements. The Company is not subject to any externally imposed capital requirements.

The debt ratios as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Total liabilities	₩ 1,917,767,974	₩ 2,227,049,002
Total equity	4,050,999,058	3,682,306,629
Debt ratio	47.34%	60.48%

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

(c) Financial risk management

1) Purpose of financial risk management

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

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

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

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2) Market risk

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

a) Foreign currency risk management

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

The sensitivity analysis includes outstanding monetary items denominated in foreign currencies, and foreign exchange translations are adjusted based on assumption that Korean won has weakened/strengthened by 10% at the end of the reporting period. The sensitivity analysis includes borrowings from third parties and also the Company's foreign operation borrowings denominated in foreign currencies other than currencies of debtors and creditors.

The Company's financial assets and liabilities exposed to foreign currency risk as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 765,750,192	₩ 450,373,066	₩ 844,515,730	₩ 750,913,715
CNY	136,953,006	-	76,754,328	-
EUR	134,702,627	94,358,267	140,903,620	110,890,767
Others	184,289,673	178,341,469	159,341,810	143,081,655

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

<i>(in thousands of Korean won)</i>	2016	2015
USD	₩ 31,537,713	₩ 9,360,202
CNY	13,695,301	7,675,433
EUR	4,034,436	3,001,285
Others	594,820	29,825,350

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In order to reduce the impact of changes in exchange rates on future cash flows, the Company entered into foreign currency forward contracts. The outstanding forward contracts as at December 31, 2016 are as follows;

<i>(in thousands of Korean won, and in USD, CNY)</i>	Contract date	Due date	Buying Currency	Buying amount	Selling currency	Selling amount
JP Morgan Chase & Co.	2016-12-16	2017-11-20	KRW	35,334,000	USD	30,000,000
Bank of America	2016-11-08	2017-05-24	KRW	19,882,200	CNY	120,000,000
				<u>55,216,200</u>		

For foreign currency forward contract, losses on valuation of derivatives amount to ₩1,189,296 thousand is recognized in profit or loss for the year ended December 31, 2016.

b) Interest rate risk

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

<i>(in thousands of Korean won)</i>	Impact on post-tax profit				Impact on equity			
		2016	2015		2016	2015		
10 bp Increase	₩	(475,512)	₩	(827,152)	₩	(475,512)	₩	(827,152)
Decrease		475,512		827,515		475,512		827,515

In order to reduce the impact of changes in interest rates, the Company entered into interest rate swap contracts. A summary of the terms of outstanding interest rate swap contracts as at December 31, 2016 is as follows:

<i>(in USD)</i>	Contract date	Due date	Notional amount	Agreed interest rate(%)	
				Buy	Sell
Deutsche Bank AG	2016-12-13	2017-12-13	100,000,000	3M LIBOR	1.14%
Citi bank	2016-12-13	2017-12-13	65,000,000	3M LIBOR	1.14%
Bank of America	2016-12-13	2018-12-13	320,000,000	3M LIBOR	1.27%
Bank of America	2016-12-13	2019-06-13	80,000,000	3M LIBOR	1.33%
			<u>565,000,000</u>		

For interest rate swap contracts, gain on valuation of derivatives amount to ₩101,457 thousand is recognized in profit or loss for the year ended December 31, 2016.

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c) Other price risks

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

3) Credit risk management

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

Credit ratings of trade receivables are evaluated constantly and credit guarantee contracts are made, if necessary.

<i>(in thousands of Korean won)</i>	2016	2015
Financial guarantee contracts ¹	₩ 1,935,414,776	₩ 2,386,774,386

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

Except for the above financial guarantee contracts, the maximum exposure to credit risk is not disclosed as the book amount of financial assets exposed to credit risk are the best presentation of the maximum exposure to credit risk.

4) Liquidity risk management

The Company has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Board of Directors has a full responsibility of the liquidity risk management. The Company manages liquidity risk by maintaining adequate reserves and credit facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Note 37 explains details of unused balances of credit facility agreements entered through the Company's discretion to reduce the liquidity risk.

a) Details of liquidity and interest rate risk

The table below discloses remaining contractual maturity of non-derivative financial liabilities in detail. The table below is prepared based on undiscounted cash flow of non-derivative financial

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liabilities. Contractual maturity is based on the earliest day when the payment can be claimed to the Company.

(in thousands of Korean won)

	2016				
	Within a year	Between 1 to 2 years	Between 2 to 5 years	Over 5 years	Total
Interest free:					
Trade payables	₩ 232,557,212	₩ -	₩ -	₩ -	₩ 232,557,212
Non-trade payables	198,793,428	-	-	-	198,793,428
Accrued expenses	51,514,312	-	-	-	51,514,312
Dividends payable	19,485	-	-	-	19,485
Rental deposits	3,462,000	1,002,698	-	-	4,464,698
Floating-rate financial instruments:					
Short-term borrowings	530,643,180	-	-	-	530,643,180
Long-term borrowings	37,029,889	-	-	-	37,029,889
Debentures	61,222,914	-	-	-	61,222,914
Fixed-rate financial instruments:					
Long-term borrowings	172,800	169,600	329,600	-	672,000
Debentures	81,173,667	256,854,375	256,965,625	-	594,993,667
Financial guarantee contracts	1,169,771,261	386,720,000	378,923,515	-	1,935,414,776
	<u>₩ 2,366,360,148</u>	<u>₩ 644,746,673</u>	<u>₩ 636,218,740</u>	<u>₩ -</u>	<u>₩ 3,647,325,561</u>

(in thousands of Korean won)

	2015				
	Within a year	Between 1 to 2 years	Between 2 to 5 years	Over 5 years	Total
Interest free:					
Trade payables	₩ 205,667,661	₩ -	₩ -	₩ -	₩ 205,667,661
Non-trade payables	354,219,722	-	-	-	354,219,722
Accrued expenses	45,603,875	-	-	-	45,603,875
Dividends payable	19,485	-	-	-	19,485
Rental deposits	3,744,558	950,498	-	-	4,695,056
Floating-rate financial instruments:					
Short-term borrowings	733,391,730	-	-	-	733,391,730
Long-term borrowings	-	35,160,000	-	-	35,160,000
Debentures	-	58,600,000	-	-	58,600,000
Fixed-rate financial instruments:					
Long-term borrowings	160,000	160,000	480,000	-	800,000
Debentures	-	70,000,000	500,000,000	-	570,000,000
Financial guarantee contracts	1,569,465,010	404,674,480	375,040,000	37,594,896	2,386,774,386
	<u>₩ 2,912,272,041</u>	<u>₩ 569,544,978</u>	<u>₩ 875,520,000</u>	<u>₩ 37,594,896</u>	<u>₩ 4,394,931,915</u>

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5. Fair Value

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets ¹				
At fair value through profit or loss	₩ -	₩ -	₩ 40,000,000	₩ 40,000,000
Financial derivative assets	101,918	101,918	-	-
Financial liabilities ¹				
Financial derivative liabilities	1,189,296	1,189,296	18,935	18,935

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.

Short-term trade receivables and payables whose carrying amount is a reasonable approximation of fair value are excluded from the fair value disclosures.

5.2 Financial Instrument Measured at Cost

Details of financial instruments measured at cost as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Available-for-sale financial assets		
Unlisted securities ¹	₩ 389,865	₩ 389,865

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 variability of estimated cash flows is significant and the probability of the various estimates cannot be reasonably assessed.

5.3 Fair value Hierarchy

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

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

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Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial derivative assets	₩ -	₩ 101,918	₩ -	₩ 101,918
Financial derivative liabilities	-	1,189,296	-	1,189,296

(in thousands of Korean won)

	2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at FVTPL	₩ -	₩ 40,000,000	₩ -	₩ 40,000,000
Financial derivative liabilities	-	18,935	-	18,935

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

The Company's policy is to recognize transfers between levels of the fair value at the date of the event or change in circumstances that caused the transfer.

There were no transfers between levels of each fair value hierarchy of financial instruments.

5.5 Valuation Technique and the Inputs

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

<i>(in thousands of Korean won)</i>	2016			
	Fair value	Level	Valuation techniques	Inputs
Derivatives				
Financial derivative assets	₩ 101,918	2	Black-Scholes model	Underlying asset price, credit risk adjusted discount rate, underlying asset variability
Financial derivative liabilities	1,189,296	2	Black-Scholes model	Underlying asset price, credit risk adjusted discount rate, underlying asset variability
Financial assets at FVTPL				
Debt securities and others	₩ 40,000,000	2	Present value technique	Credit risk adjusted discount rate
Derivatives				
Financial derivative liabilities	18,935	2	Black-Scholes model	Underlying asset price, credit risk adjusted discount rate, underlying asset variability

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6. Financial Instrument by Category

6.1 Carrying Amounts of Financial Instruments by Category

Categorizations of financial assets and liabilities as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>		2016		2015	
Financial assets:					
Available-for-sale financial assets	Available-for-sale financial assets	₩	389,865	₩	389,865
Derivatives	Financial derivative assets		101,918		-
Financial assets at FVTPL	Financial assets at FVTPL		-		40,000,000
Loans and receivables	Cash and cash equivalents		72,963,541		216,889,941
	Short-term financial assets		94,181,814		30,066,914
	Trade receivables		826,699,717		751,024,305
	Non-trade receivables		194,361,354		171,621,670
	Accrued income		11,446,858		15,939,652
	Deposits provided (current)		145,142		122,892
	Deposits provided (non-current)		8,437,515		8,954,122
	Short-term loans		308,659,941		93,881,713
	Long-term loans		6,063,320		216,817,030
	Long-term financial assets		12,000		12,000
	Financial guarantee contract assets (current)		3,894,767		3,933,532
	Financial guarantee contract assets (non-current)		4,652,366		4,290,541
		₩	<u>1,532,010,118</u>	₩	<u>1,553,944,177</u>

<i>(in thousands of Korean won)</i>		2016		2015	
Financial liabilities:					
Derivatives	Financial derivative liabilities	₩	1,189,296	₩	18,935
Financial liabilities at amortized cost	Trade payables		232,557,212		205,667,661
	Non-trade payables		198,793,428		358,596,158
	Accrued expenses		51,514,312		45,603,875
	Dividends payable		19,485		19,485
	Short-term borrowings		73,107,035		116,560,668
	Long-term borrowings		36,895,000		35,960,000
	Debentures		629,625,590		627,281,621
	Leasehold deposits received(current)		3,462,000		3,744,557
	Leasehold deposits received (non-current)		1,002,698		950,498
	Financial guarantee contract liabilities (current)		3,894,767		3,933,532
	Financial guarantee contract liabilities (non-current)		4,652,366		4,290,541
Other financial liabilities	Short-term borrowings		457,536,145		616,831,062
		₩	<u>1,694,249,334</u>	₩	<u>2,019,458,593</u>

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6.2 Net Gains or Losses by Category of Financial Instruments

Net gains or losses on each category of financial instruments for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Derivatives		
Gains or losses on valuation of derivatives	₩ (1,087,378)	₩ (18,935)
Gains or losses on transaction of derivatives	950,019	6,859,222
Available-for-sale financial assets		
Interest income	9	904
Gains or losses on disposal	(789)	(7,159)
Financial assets at fair value through profit or loss		
Interest income	-	1,910,277
Loans and receivables		
Interest income	7,516,574	12,996,952
Gains or losses on foreign currency transaction	(18,286,592)	5,366,908
Gains or losses on foreign currency translation	41,494,701	15,067,648
Financial liabilities measured at amortized cost		
Interest expense	(13,229,891)	(15,362,469)
Gains or losses on foreign currency transaction	(3,888,986)	(24,197,426)
Gains or losses on foreign currency translation	(11,010,100)	(9,764,456)
Other financial liabilities		
Interest expense	(11,210,776)	(442,461)
Gains or losses on foreign currency transaction	12,407,244	(3,812,903)
Gains or losses on foreign currency translation	(20,047,279)	(267,517)
	<u>₩ (16,393,244)</u>	<u>₩ (11,671,415)</u>

Hankook Tire Co., Ltd.
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7. Trade and Other Receivables

Details of trade and other receivables as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

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

(in thousands of Korean won)

	2015		
	Gross amount	Less: Provision for impairment	Net amount
Trade receivables	₩ 752,509,625	₩ (1,485,320)	₩ 751,024,305
Non-trade receivables	171,969,455	(347,785)	171,621,670
Accrued income	15,939,652	-	15,939,652
	<u>₩ 940,418,732</u>	<u>₩ (1,833,105)</u>	<u>₩ 938,585,627</u>

Movements on the provision for impairment of trade receivables and other receivables for the periods ended December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

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

(in thousands of Korean won)

	2015		
	Trade receivables	Non-trade receivables	Total
Beginning balance	₩ 1,728,228	₩ 358,435	₩ 2,086,663
Reversal of impairment loss	(183,988)	(10,650)	(194,638)
Write-offs	(58,920)	-	(58,920)
Ending balance	<u>₩ 1,485,320</u>	<u>₩ 347,785</u>	<u>₩ 1,833,105</u>

Hankook Tire Co., Ltd.
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The aging analysis of the trade receivables as at December 31, 2016 and 2015, is as follows:

<i>(in thousands of Korean won)</i>	2016					
	Within due	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 years	Total
Receivables not past due :						
Trade receivables	₩ 813,915,519	₩ -	₩ -	₩ -	₩ -	₩ 813,915,519
Other receivables	194,838,079	-	-	-	-	194,838,079
	<u>1,008,753,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,008,753,598</u>
Past due but not impaired :						
Trade receivables	-	1,174,345	-	-	-	1,174,345
Other receivables	-	3,972,156	834,073	1,112,472	1,808,465	7,727,166
	-	<u>5,146,501</u>	<u>834,073</u>	<u>1,112,472</u>	<u>1,808,465</u>	<u>8,901,511</u>
Impaired :						
Trade receivables	-	8,520,019	1,417,217	1,569,240	1,703,879	13,210,355
Other receivables	-	3,053,331	182,163	51,822	90,486	3,377,802
	-	<u>11,573,350</u>	<u>1,599,380</u>	<u>1,621,062</u>	<u>1,794,365</u>	<u>16,588,157</u>
	<u>₩ 1,008,753,598</u>	<u>₩ 16,719,851</u>	<u>₩ 2,433,453</u>	<u>₩ 2,733,534</u>	<u>₩ 3,602,830</u>	<u>₩ 1,034,243,266</u>

<i>(in thousands of Korean won)</i>	2015					
	Within due	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 years	Total
Receivables not past due :						
Trade receivables	₩ 735,068,389	₩ -	₩ -	₩ -	₩ -	₩ 735,068,389
Other receivables	185,968,952	-	-	-	-	185,968,952
	<u>921,037,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>921,037,341</u>
Past due but not impaired :						
Trade receivables	-	2,172,321	-	-	-	2,172,321
Other receivables	-	895,730	-	-	-	895,730
	-	<u>3,068,051</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,068,051</u>
Impaired :						
Trade receivables	-	11,080,401	1,325,113	1,441,442	1,421,959	15,268,915
Other receivables	-	523,497	31,914	76,411	412,603	1,044,425
	-	<u>11,603,898</u>	<u>1,357,027</u>	<u>1,517,853</u>	<u>1,834,562</u>	<u>16,313,340</u>
	<u>₩ 921,037,341</u>	<u>₩ 14,671,949</u>	<u>₩ 1,357,027</u>	<u>₩ 1,517,853</u>	<u>₩ 1,834,562</u>	<u>₩ 940,418,732</u>

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8. Inventories

Details of inventories as at December 31, 2016 and 2015, are as follows:

*(in thousands of
Korean won)*

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

*(in thousands of
Korean won)*

	2015			
	Acquisition cost	Inventory valuation	Inventory valuation allowance	Valuation loss (reversal)
Finished goods	₩ 165,989,671	₩ 161,519,918	₩ 4,469,753	₩ 1,665,139
Merchandise	11,894,547	11,702,642	191,905	66,059
Work in process	16,007,233	16,007,233	-	-
Raw materials	92,061,272	91,102,112	959,160	(507,419)
Supplies	7,464,483	7,464,483	-	(379,184)
Materials in transit	90,476,077	90,476,077	-	-
	<u>₩ 383,893,283</u>	<u>₩ 378,272,465</u>	<u>₩ 5,620,818</u>	<u>₩ 844,595</u>

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

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9. Other Financial Assets

Details of other financial assets as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016		2015	
	Current	Non-current	Current	Non-current
Loans ¹	₩ 308,659,941	₩ 6,063,320	₩ 93,881,713	₩ 216,817,030
Deposits provided	145,142	8,437,515	122,892	8,954,122
Financial derivative assets	-	101,918	-	-
Financial guarantee contract assets	3,894,767	4,652,366	3,933,532	4,290,541
	<u>₩ 312,699,850</u>	<u>₩ 19,255,119</u>	<u>₩ 97,938,137</u>	<u>₩ 230,061,693</u>

¹ The Company provides loans to its subsidiaries (Note 38).

10. Other Assets

Details of other assets as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016		2015	
	Current	Non-current	Current	Non-current
Advance payments	₩ 599,756	₩ 57,169,274	₩ 860,202	₩ 40,000,000
Prepaid expenses	11,335,852	163,469	8,418,715	5,488
Others	-	144,237	-	150,268
	<u>₩ 11,935,608</u>	<u>₩ 57,476,980</u>	<u>₩ 9,278,917</u>	<u>₩ 40,155,756</u>

11. Available-for-sale Financial Assets

Details of Available-for-sale financial assets as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016	2015
Equity instrument		
Unlisted securities	₩ 389,865	₩ 389,865

Hankook Tire Co., Ltd.
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12. Investment in Associates

Details of the Company's investment in associates as at December 31, 2016 and 2015, are as follows :

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

<i>(in thousands of Korean won)</i>	Closing month	Location	Number of shares	2015		
				Percentage of ownership (%)	Acquisition cost	Book amount
Hanon Systems Co., Ltd. ¹	December	Korea	104,031,000	19.49	₩ 1,061,740,386	₩ 1,061,740,386

¹ As at December 31, 2016, the fair value of marketable investment in associates is ₩1,071,519,300 thousand (2015: ₩1,079,841,780 thousand).

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

<i>(in thousands of Korean won)</i>		2016	2015
Hanon Systems Co., Ltd.	Assets	₩ 3,859,737,521	₩ 3,459,361,438
	Liabilities	1,974,831,434	1,659,920,185
	Equity	1,884,906,087	1,799,441,253
	Sales	5,703,714,577	5,558,080,871
	Profit for the period	303,755,866	243,370,985
	Total comprehensive income	277,081,907	242,809,695
	Dividend	35,786,664	-

Hankook Tire Co., Ltd.
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13. Investment in Subsidiaries

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

Subsidiary	Main business	Location
Daehwa Engineering & Machinery Co., Ltd.	Manufacture of tire and tube manufacturing machine	Korea
Hankook Tire America Corp.	Sales of tires	USA
Hankook Tyre U.K. Ltd.	Sales of tires	United Kingdom
Jiangsu Hankook Tire Co., Ltd.	Manufacture and sales of tires	China
Hankook Tire China Co., Ltd.	Manufacture and sales of tires	China
Hankook Tire Netherlands B.V.	Sales of tires	Netherlands
Hankook Tire Japan Corp.	Sales of tires	Japan
Hankook Tire Canada Corp.	Sales of tires	Canada
Hankook Reifen Deutschland GmbH	Sales of tires	Germany
Hankook Tire France SARL	Sales of tires	France
Hankook Espana S.A.	Sales of tires	Spain
Hankook Tyre Australia Pty., Ltd.	Sales of tires	Australia
Hankook Tire Europe Holdings B.V.	Building European governance	Netherlands
Hankook Tire DE Mexico, S.A. DE C.V.	Sales of tires	Mexico
Chongqing Hankooktire Co., Ltd.	Manufacture and sales of tires	China
PT. HANKOOKTIRE INDONESIA	Manufacture and sales of tires	Indonesia
MK Technology Co., Ltd.	Manufacture and sales of tire mold	Korea
Hankook Tire Singapore PTE., Ltd.	Trade and consulting	Singapore
Hankook Tire Malaysia SDN.BHD.	Sales of tires	Malaysia
Hankook Tire Thailand Co., Ltd.	Sales of tires	Thailand
Hankook Tire de Colombia Ltda.	Sales of tires	Colombia
Hankook Donggeurami Partners Co., Ltd.	Facilities management service and baking	Korea
HK Motors Co., Ltd.	Sales of parts of vehicles	Korea
Mirae Asset Daewoo Co., Ltd. Specified Money Trusts and other four more	Trust accounts	Korea

Hankook Tire Co., Ltd.
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Details of the Company's investments in subsidiaries as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	Number of shares	Percentage of ownership (%)	2016	
			Acquisition cost	Book amount
Daehwa Engineering & Machinery Co., Ltd.	380,000	95.00	₩ 1,900,000	₩ 1,900,000
Hankook Tire America Corp. ⁴	35,600	100.00	197,054,823	197,054,823
Hankook Tyre U.K. Ltd.	25,000	100.00	30,649	30,649
Jiangsu Hankook Tire Co., Ltd.	1.2	34.67	71,170,379	71,170,379
Hankook Tire China Co., Ltd.	1.3	96.37	207,659,518	207,659,518
Hankook Tire Netherlands B.V.	1	100.00	1,738,031	1,738,031
Hankook Tire Japan Corp.	2,000	100.00	1,647,432	-
Hankook Tire Canada Corp.	50,000	100.00	30,950	30,950
Hankook Reifen Deutschland GmbH	1	100.00	126,995	126,995
Hankook Tire France SARL	1	100.00	1,601,630	1,601,630
Hankook Espana S. A.	1	100.00	76,873	76,873
Hankook Tyre Australia Pty., Ltd.	1	100.00	1,554,999	1,554,999
Hankook Tire Europe Holdings B.V.	390,253	100.00	240,408,421	240,408,421
Hankook Tire DE Mexico, S.A. DE C.V. ³	9,999	99.99	330,339	-
Chongqing Hankooktire Co., Ltd.	1	100.00	232,293,000	232,293,000
PT. HANKOOKTIRE INDONESIA	270,999	99.99	296,226,785	296,226,785
MK Technology Co., Ltd.	3,507,000	50.10	11,322,600	11,322,600
Hankook Tire Singapore PTE., Ltd.	1	100.00	1,118,960	1,118,960
Hankook Tire Malaysia SDN.BHD.	1,000,000	100.00	429,920	-
Hankook Tire Thailand Co., Ltd.	1,029,998	99.99	3,770,823	1,670,823
Hankook Tire de Colombia Ltda.	999	99.99	106,084	-
Hankook Donggeurami Partners Co., Ltd.	1,800,000	100.00	900,000	900,000
HK Motors Co., Ltd. ⁵	1,980,000	100.00	990,000	990,000
			₩ 1,272,489,211	₩ 1,267,875,436

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(in thousands of Korean won)	2015				
	Number of shares	Percentage of ownership (%)	Acquisition cost	Book amount	
Daehwa Engineering & Machinery Co., Ltd.	380,000	95.00	₩ 1,900,000	₩ 1,900,000	
Hankook Tire America Corp.	29,600	100.00	161,972,823	161,972,823	
Hankook Tyre U.K. Ltd.	25,000	100.00	30,649	30,649	
Jiangsu Hankook Tire Co., Ltd.	1,2	34.67	71,170,379	71,170,379	
Hankook Tire China Co., Ltd.	1,3	96.37	207,659,518	207,659,518	
Hankook Tire Netherlands B.V.	1	100.00	1,738,031	1,738,031	
Hankook Tire Japan Corp.	2,000	100.00	1,647,432	-	
Hankook Tire Canada Corp.	50,000	100.00	30,950	30,950	
Hankook Reifen Deutschland GmbH	1	100.00	126,995	126,995	
Hankook Tire France SARL	1	100.00	1,601,630	1,601,630	
Hankook Espana S. A.	1	100.00	76,873	76,873	
Hankook Tyre Australia Pty., Ltd.	1	100.00	1,554,999	1,554,999	
Hankook Tire Europe Holdings B.V.	390,253	100.00	240,408,421	240,408,421	
Hankook Tire DE Mexico, S.A. DE C.V. ³	9,999	99.99	330,339	-	
Chongqing Hankooktire Co., Ltd.	1	100.00	232,293,000	232,293,000	
PT. HANKOOKTIRE INDONESIA	270,999	99.99	296,226,785	296,226,785	
MK Technology Co., Ltd.	3,507,000	50.10	11,322,600	11,322,600	
Hankook Tire Singapore PTE., Ltd.	1	100.00	1,118,960	1,118,960	
Hankook Tire Malaysia SDN.BHD.	1,000,000	100.00	429,920	-	
Hankook Tire Thailand Co., Ltd.	1,029,998	99.99	3,770,823	1,670,823	
Hankook Tire de Colombia Ltda.	999	99.99	106,084	-	
Hankook Donggeurami Partners Co., Ltd.	1,800,000	100.00	900,000	900,000	
			₩ 1,236,417,211	₩ 1,231,803,436	

¹ A certain subsidiaries did not issue a share certificate.

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

³ The effective ownership through Hankook Tire America Corp. is 100%.

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

⁵ For the year ended December 31, 2016, the Company established HK Motors Co., Ltd., whose acquisition cost is ₩990,000 thousand.

Hankook Tire Co., Ltd.
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14. Property, Plant and Equipment

Details of the book amount of property, plant and equipment as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

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

(in thousands of Korean won)

	2015					
	Acquisition cost		Accumulated depreciation		Book amount	
Land	₩	259,380,429	₩	-	₩	259,380,429
Buildings		630,980,130		(206,246,715)		424,733,415
Structures		42,811,656		(22,349,901)		20,461,755
Machinery and equipment		1,870,998,101		(1,460,800,999)		410,197,102
Vehicles		32,326,667		(21,225,708)		11,100,959
Tools, furniture and fixtures		165,279,475		(119,568,930)		45,710,545
Molds		352,190,209		(226,966,879)		125,223,330
Machinery in transit		14,080,916		-		14,080,916
Construction in progress		190,018,600		-		190,018,600
	₩	<u>3,558,066,183</u>	₩	<u>(2,057,159,132)</u>	₩	<u>1,500,907,051</u>

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Changes in property, plant and equipment for the periods ended December 31, 2016 and the 2015, are as follows:

(in thousands of Korean won)

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

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

(in thousands of Korean won)

	2015						
	Opening net book amount	Acquisition	Disposal	Depreciation	Merger	Others ¹	Closing net book amount
Land	₩ 250,559,503	₩ 4,912,033	₩ -	₩ -	₩ 482,894	₩ 3,425,999	₩ 259,380,429
Buildings	404,109,448	18,133,503	(354,129)	(16,291,662)	732,690	18,403,565	424,733,415
Structures	21,608,251	502,027	(479,630)	(1,741,211)	-	572,318	20,461,755
Machinery and equipment	427,393,927	83,169,807	(1,553,780)	(132,961,160)	-	34,148,308	410,197,102
Vehicles	11,580,266	1,804,855	(50,703)	(3,062,029)	-	828,570	11,100,959
Tools, furniture and fixtures	42,925,222	10,232,282	(1,393,276)	(14,743,162)	-	8,689,479	45,710,545
Molds	117,580,926	37,452,649	(763,338)	(29,162,399)	-	115,492	125,223,330
Machinery in transit	12,978,040	21,111,969	-	-	-	(20,009,093)	14,080,916
Construction in progress	103,455,139	146,316,406	-	-	-	(59,752,945)	190,018,600
	<u>₩ 1,392,190,722</u>	<u>₩ 323,635,531</u>	<u>₩ (4,594,856)</u>	<u>₩ (197,961,623)</u>	<u>₩ 1,215,584</u>	<u>₩ (13,578,307)</u>	<u>₩ 1,500,907,051</u>

¹ Construction in progress and machinery in transit consist of account transfers to property, plant and equipment of ₩66,183,731 thousand and account transfers to intangible asset of ₩13,578,307 thousand.

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Pledged assets as collateral

As at December 31, 2016, a portion of the Company's property, plant and equipment (land, buildings and machinery) is pledged as collateral for its credit line and others. The Company has entered into a property comprehensive insurance for its buildings (Note 37).

For the year ended December 31, 2016, the Company has capitalized borrowing costs amounting to ₩ 5,840,374 thousand (2015: ₩ 6,233,800 thousand) on property, plant and equipment that are qualifying assets. The capitalization rate of borrowings used to determine the amount of borrowing costs to be capitalized is 3.22% (2015: 4.77%).

15. Investment Properties

Details of investment properties as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

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

(in thousands of Korean won)

	2015		
	Acquisition cost	Accumulated depreciation	Book amount
Land	₩ 83,225,811	₩ -	₩ 83,225,811
Buildings	38,733,333	(14,768,727)	23,964,606
	<u>₩ 121,959,144</u>	<u>₩ (14,768,727)</u>	<u>₩ 107,190,417</u>

Changes in investment properties for the periods ended December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

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

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<i>(in thousands of Korean won)</i>	2015					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 83,225,811	₩ -	₩ -	₩ -	₩ -	₩ 83,225,811
Buildings	24,921,269	-	-	(956,663)	-	23,964,606
	<u>₩108,147,080</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ (956,663)</u>	<u>₩ -</u>	<u>₩ 107,190,417</u>

For the year ended December 31, 2016, rental income from investment property is ₩ 3,274,690 thousand (2015: ₩ 3,576,660 thousand), and operating expenses from property that generated rental income are ₩ 1,100,478 thousand (2015: ₩ 1,008,476 thousand).

Fair value of investment properties as at December 31, 2016 is ₩ 232,448,874.

16. Intangible Assets

Details of intangible assets as at December 31, 2016 and 2015, are as follows:

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

<i>(in thousands of Korean won)</i>	2015		
	Acquisition cost	Accumulated amortization	Book amount
Industrial rights	₩ 10,855,354	₩ (8,531,662)	₩ 2,323,692
Other intangible assets	60,270,546	(42,243,222)	18,027,324
Construction in progress	5,712,010	-	5,712,010
	<u>₩ 76,837,910</u>	<u>₩ (50,774,884)</u>	<u>₩ 26,063,026</u>

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Changes in intangible assets for the periods ended December 31, 2016 and 2015, are as follows:

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

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

<i>(in thousands of Korean won)</i>	2015					
	Beginning balance	Acquisition	Disposal	Amortization	Others ¹	Ending balance
Industrial rights	₩ 2,149,338	₩ 710,246	₩ -	₩ (997,579)	₩ 461,687	₩ 2,323,692
Other intangible assets	13,049,833	-	(33,400)	(4,608,062)	9,618,953	18,027,324
Construction in progress	-	98,506	-	-	5,613,504	5,712,010
	<u>₩ 15,199,171</u>	<u>₩ 808,752</u>	<u>₩ (33,400)</u>	<u>₩ (5,605,641)</u>	<u>₩ 15,694,144</u>	<u>₩ 26,063,026</u>

¹ For the year ended December 31, 2015, advance payments transferred to intangible assets were ₩2,115,837 thousand and property, plant and equipment account transferred to intangible assets were ₩13,578,307 thousand.

17. Trade and Other Payables

Details of trade and other payables as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Trade payables	₩ 232,557,212	₩ 205,667,661
Non-trade payables	198,793,428	358,596,158
Accrued expenses	51,514,312	45,603,875
Dividends payable	19,485	19,485
	<u>₩ 482,884,437</u>	<u>₩ 609,887,179</u>

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18. Borrowings

Details of borrowings as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016		2015	
	Current	Non-current	Current	Non-current
Short-term borrowings	₩ 530,643,180	₩ -	₩ 733,391,730	₩ -
Long-term borrowings	36,415,000	480,000	160,000	35,800,000
Debentures	130,381,159	499,244,432	-	627,281,621
	<u>₩ 697,439,339</u>	<u>₩ 499,724,432</u>	<u>₩ 733,551,730</u>	<u>₩ 663,081,621</u>

Details of short-term borrowings as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	Lender	Annual interest rate(%)	2016	2015
Transfer of trade receivables ¹	Woori Bank and others	0.01 ~ 12.31	₩ 457,536,145	₩ 616,831,062
Usance	Kookmin Bank and others	LIBOR + 0.3	73,107,035	116,560,668
			<u>₩ 530,643,180</u>	<u>₩ 733,391,730</u>

¹ As financial liabilities recognized with respect to transfer of trade receivables cannot meet derecognition requirements, these are secured by the Company's trade receivables.

Details of long-term borrowings as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	Lender	Annual interest rate(%)	Maturity date	2016		2015	
				Current	Non-current	Current	Non-current
Long-term borrowings in local currency	Woori Bank	2.00	2020.12.20	₩ 160,000	₩ 480,000	₩ 160,000	₩ 640,000
Long-term borrowings in foreign currency	Korea Development Bank	LIBOR + 1.20	2017.08.29	36,255,000	-	-	35,160,000
				<u>₩ 36,415,000</u>	<u>₩ 480,000</u>	<u>₩ 160,000</u>	<u>₩ 35,800,000</u>

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Details of debentures as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	Issue date	Maturity date	Annual interest rate(%)	2016		2015	
				Current	Non-current	Current	Non-current
The 81-2nd debentures payable	2012.02.21	2017.02.21	4.06	₩ 70,000,000	₩ -	₩ -	₩ 70,000,000
The 82nd debentures payable	2014.09.01	2017.09.01	LIBOR +0.83	60,425,000	-	-	58,600,000
The 83-1st debentures payable	2015.03.12	2018.03.12	2.05	-	250,000,000	-	250,000,000
The 83-2nd debentures payable	2015.03.12	2020.03.12	2.23	-	250,000,000	-	250,000,000
Less: Discount on debentures				(43,841)	(755,568)	-	(1,318,379)
				<u>₩130,381,159</u>	<u>₩499,244,432</u>	<u>₩ -</u>	<u>₩ 627,281,621</u>

19. Provisions

Changes in provisions as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

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

(in thousands of Korean won)

	2015				
	Beginning balance	Additional provisions (reversal)	Used during the year	Exchange differences	Ending balance
Provision for product liabilities	₩ 7,144,800	₩ 1,758,000	₩ -	₩ 473,200	₩ 9,376,000
Provision for product warranties	12,941,312	51,582,531	(11,330,572)	-	53,193,271
Other provisions	275,497	121,963	-	-	397,460
	<u>₩ 20,361,609</u>	<u>₩ 53,462,494</u>	<u>₩ (11,330,572)</u>	<u>₩ 473,200</u>	<u>₩ 62,966,731</u>

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20. Other Financial Liabilities

Details of other financial liabilities as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016		2015	
	Current	Non-current	Current	Non-current
Leasehold deposits received	₩ 3,462,000	₩ 1,002,698	₩ 3,744,558	₩ 950,498
Financial guarantee contract liabilities	3,894,767	4,652,366	3,933,532	4,290,541
Financial derivative liabilities	1,189,296	-	18,935	-
	<u>₩ 8,546,063</u>	<u>₩ 5,655,064</u>	<u>₩ 7,697,025</u>	<u>₩ 5,241,039</u>

21. Other Liabilities

Details of other liabilities as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016		2015	
	Current	Non-current	Current	Non-current
Advance received	₩ 14,877,136	₩ -	₩ 12,427,471	₩ -
Withholdings	31,071,580	-	23,765,904	-
Long-term employee liabilities	-	17,344,863	-	15,078,149
	<u>₩ 45,948,716</u>	<u>₩ 17,344,863</u>	<u>₩ 36,193,375</u>	<u>₩ 15,078,149</u>

Changes in Long-term employee liabilities as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016			
	Beginning balance	Employee benefits	Payments	Ending balance
Long-term employee liabilities	₩ 15,078,149	₩ 3,376,454	₩ (1,109,740)	₩ 17,344,863

(in thousands of Korean won)

	2015			
	Beginning balance	Employee benefits	Payments	Ending balance
Long-term employee liabilities	₩ 14,640,003	₩ 1,711,110	₩ (1,272,964)	₩ 15,078,149

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22. Post-employment Benefits

The Company has both defined contribution and defined benefit plans.

22.1 Defined Benefit Plan

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

The most recent actuarial assessment of plan assets and defined benefit obligation was performed on December 31, 2016, by Mirae Asset Daewoo Co., Ltd. Present value of the defined benefit obligation, its related current service cost and past service cost have been measured by using the projected unit credit method.

Details of net defined benefit liabilities(assets) recognized in the statements of financial position as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Present value of defined benefit obligations	₩ 361,624,837	₩ 319,612,044
Fair value of plan assets ¹	<u>(348,128,684)</u>	<u>(294,098,781)</u>
Net defined benefit liabilities (assets)	<u>₩ 13,496,153</u>	<u>₩ 25,513,263</u>

¹ The contributions to the National Pension Fund of 617,433 thousand are included in the fair value of plan assets as at December 31, 2015.

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Movements in the defined benefit liabilities and the fair value of plan assets for the periods ended December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	2016		
	Present value of defined benefit obligations	Fair value of plan assets	Total
Beginning balance	₩ 319,612,044	₩ (294,098,781)	₩ 25,513,263
Current service cost	52,571,923	-	52,571,923
Interest expense (income)	11,048,937	(9,607,273)	1,441,664
	<u>63,620,860</u>	<u>(9,607,273)</u>	<u>54,013,587</u>
Remeasurements:			
Return on plan assets (excluding amounts included in net interest)	-	3,175,929	3,175,929
Actuarial loss (gain) from change in demographic assumptions	(1,130,282)	-	(1,130,282)
Actuarial loss (gain) from change in financial assumptions	(866,731)	-	(866,731)
Actuarial loss (gain) from experience adjustments	7,690,019	-	7,690,019
	<u>5,693,007</u>	<u>3,175,929</u>	<u>8,868,936</u>
Employers' contributions	-	(70,000,000)	(70,000,000)
Benefit payments	(26,837,310)	17,615,545	(9,221,765)
Others	(463,764)	4,785,896	4,322,132
Ending balance	<u>₩ 361,624,837</u>	<u>₩ (348,128,684)</u>	<u>₩ 13,496,153</u>

(in thousands of Korean won)

	2015		
	Present value of defined benefit obligations	Fair value of plan assets	Total
Beginning balance	₩ 268,947,987	₩ (224,601,098)	₩ 44,346,889
Current service cost	48,651,569	-	48,651,569
Interest expense (income)	10,330,579	(8,356,021)	1,974,558
	<u>58,982,148</u>	<u>(8,356,021)</u>	<u>50,626,127</u>
Remeasurements:			
Return on plan assets (excluding amounts included in net interest)	-	2,335,946	2,335,946
Actuarial loss (gain) from change in demographic assumptions	2,008,512	-	2,008,512
Actuarial loss (gain) from change in financial assumptions	16,634,517	-	16,634,517
Actuarial loss (gain) from experience adjustments	(1,632,030)	-	(1,632,030)
	<u>17,010,999</u>	<u>2,335,946</u>	<u>19,346,945</u>
Employers' contributions	-	(80,000,000)	(80,000,000)
Benefit payments	(20,973,742)	16,522,392	(4,451,350)
Increase by merger	21,088	-	21,088
Others	(4,376,436)	-	(4,376,436)
Ending balance	<u>₩ 319,612,044</u>	<u>₩ (294,098,781)</u>	<u>₩ 25,513,263</u>

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The significant actuarial assumptions used in defined benefit obligations assessment as at December 31, 2016 and 2015 and January 1, 2015, are as follows:

<i>(in percentage, %)</i>	2016	2015
Discount rate	3.44%	3.50%
Salary growth rate	5.70%	5.83%

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

<i>(in thousands of Korean won)</i>	2016	
	Increase	Decrease
1% change of discount rate	₩ (35,568,192)	₩ 42,291,643
1% change of salary growth rate	41,710,850	(35,782,668)

<i>(in thousands of Korean won)</i>	2015	
	Increase	Decrease
1% change of discount rate	₩ (32,630,770)	₩ 38,979,682
1% change of salary growth rate	38,514,916	(32,879,672)

Amounts recognized in statements of comprehensive income regarding defined benefit pension plans for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Current service cost	₩ 52,571,923	₩ 48,651,569
Interest cost	1,441,664	1,974,558
	<u>₩ 54,013,587</u>	<u>₩ 50,626,127</u>

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Plan assets as at December 31, 2016 and 2015, consist of:

<i>(in thousands of Korean won)</i>	2016		2015	
	Amount	Composition	Amount	Composition
Debt instruments	₩ 348,128,670	100.00%	₩ 293,481,336	99.80%
Cash and cash equivalents	14	0.00%	12	0.00%
Others	-	-	617,433	0.20%
	<u>₩ 348,128,684</u>	<u>100.00%</u>	<u>₩ 294,098,781</u>	<u>100.00%</u>

The Company reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2017, are ₩ 66,185,590 thousand.

The expected maturity analysis of undiscounted pension benefits as at December 31, 2016, is as follows:

<i>(in thousands of Korean won)</i>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Pension benefits	₩ 17,174,254	₩ 19,128,708	₩ 76,811,285	₩ 829,533,625	₩ 942,647,872

The weighted average duration of the defined benefit obligation is 11.42 years.

22. 2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 1,142,280 thousand.

23. Share Capital

Details of share capital as at December 31, 2016 and 2015, are as follows:

<i>(in Korean won)</i>	2016	2015
Authorized (shares)	250,000,000	250,000,000
Par value	500	500
Outstanding (shares):		
Ordinary shares	<u>123,875,069</u>	<u>123,875,069</u>
Share capital:		
Ordinary shares	<u>₩ 61,937,534,500</u>	<u>₩ 61,937,534,500</u>

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24. Other Paid-in Capital

Details of other paid-in capital as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Share premium	₩ 2,459,062,742	₩ 2,459,062,742
Other capital surplus	(866,733)	(866,733)
Treasury shares ¹	<u>(1,088,018)</u>	<u>(1,088,018)</u>
	<u>₩ 2,457,107,991</u>	<u>₩ 2,457,107,991</u>

¹ During 2012, the Company acquired 22,388 treasury shares through a spin-off and plan for retire the treasury shares is not yet determined.

25. Retained Earnings and Dividends

Details of retained earnings as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Legal reserve:		
Surplus reserve	<u>₩ 19,816,429</u>	<u>₩ 14,862,322</u>
	<u>19,816,429</u>	<u>14,862,322</u>
Discretionary reserve:		
Dividend equalization reserve	40,000,000	30,000,000
Director's retirement bonus reserve	4,000,000	3,000,000
Voluntary reserve	<u>40,000,000</u>	<u>30,000,000</u>
	84,000,000	63,000,000
Unappropriated retained earnings	<u>1,428,137,103</u>	<u>1,085,398,781</u>
	<u>₩ 1,531,953,532</u>	<u>₩ 1,163,261,103</u>

Dividend distribution to the Company's ordinary shareholders amounted to ₩ 49,541,072 thousand (2015: ₩ 49,541,072 thousand) for the year ended December 31, 2015, was paid in 2016.

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Statements of retained earnings for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in Korean won)</i>	2016	2015
1. Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	₩ 1,009,903,601,680	₩ 747,869,032,127
Profit for the period	424,956,154,894	352,194,733,603
Remeasurements of net defined benefit liabilities	<u>(6,722,653,418)</u>	<u>(14,664,984,410)</u>
	<u>₩ 1,428,137,103,156</u>	<u>₩ 1,085,398,781,320</u>
2. Appropriation of retained earnings		
Dividend equalization reserve	₩ 10,000,000,000	₩ 10,000,000,000
Director's retirement bonus reserve	1,000,000,000	1,000,000,000
Voluntary reserve	10,000,000,000	10,000,000,000
Legal reserve	4,954,107,240	4,954,107,240
Cash dividends		
(Dividends per share: 2016: ₩400 (80%) 2015: ₩400 (80%))	<u>49,541,072,400</u>	<u>49,541,072,400</u>
	<u>₩ 75,495,179,640</u>	<u>₩ 75,495,179,640</u>
3. Unappropriated retained earnings to be carried forward to subsequent year	<u>₩ 1,352,641,923,516</u>	<u>₩ 1,009,903,601,680</u>

The appropriation of retained earnings for the year ended December 31, 2016, is expected to be appropriated at the shareholders' meeting on March 24, 2017. The appropriation date for the year ended December 31, 2015, was March 25, 2016.

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26. Sales and Cost of Sales

Details of sales for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Sales of goods	₩ 3,309,066,059	₩ 3,355,299,095
Sale of finished goods	3,125,978,797	3,202,134,222
Sale of merchandise	255,315,172	224,106,381
Sale discount	(30,460,227)	(50,771,023)
Exporting commission fee	(5,878,842)	(9,649,082)
Sales incentive	(35,888,841)	(10,521,403)
Rendering of services	3,097,164	3,117,872
Rental sales	2,573,589	2,729,906
Service sales	64,102	34,574
Outsourcing sales	459,473	353,392
	<u>₩ 3,312,163,223</u>	<u>₩ 3,358,416,967</u>

Details of cost of sales for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Cost of finished goods sold	₩ 1,924,584,726	₩ 2,045,349,626
Cost of merchandise sold	225,123,840	197,415,545
Custom duties reimbursed	(7,069,096)	(14,430,102)
Losses on valuation of inventories(reversal)	(1,397,610)	844,595
Losses on inventory obsolescence	1,047	-
Losses on abandonment of inventories	5,464,865	-
	<u>₩ 2,146,707,772</u>	<u>₩ 2,229,179,664</u>

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27. Selling and Administrative Expenses

Details of selling and administrative expenses for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
Payroll	₩	77,423,791	₩	70,540,843
Post-employment benefits		11,321,692		9,268,490
Service expenses		41,925,780		41,723,146
Employee benefits		15,914,937		15,486,479
Utility expenses		1,643,999		1,579,562
Supplies expenses		3,256,882		1,800,388
Repairs expenses		4,788,293		3,578,036
Test expenses		2,287,294		2,166,519
Overseas branch maintenance expenses		4,074,810		4,349,226
Travel expenses		4,605,228		4,138,578
Training expenses		938,773		989,454
Communication expenses		890,238		976,414
Entertainment expenses		3,780,032		3,806,464
Vehicles maintenance expenses		2,048,930		2,293,836
Publication expenses		616,727		589,303
Commission fees		46,108,705		37,995,560
Rental expenses		6,525,685		6,340,258
Depreciation of property, plant and equipment		22,323,353		20,709,456
Depreciation of investment property		1,009,567		956,663
Amortization of intangible assets		3,759,756		2,445,315
Insurance		3,322,904		2,791,390
Taxes and dues		5,998,478		6,332,478
Impairment loss (reversal of provision for impairment of receivables)		159,634		(194,638)
Conference expenses		287,909		476,229
Brand loyalty expenses		47,868,091		46,920,741
SSC service fee		21,511,833		18,352,643
Travel and transportation expenses		38,590,120		37,704,411
Ship transportation expenses		99,859,150		122,435,298
Advertising		161,261,238		148,969,909
Other export expenses		9,757,329		9,463,178
Packing charges		4,856,290		4,603,493
Sales damage expenses		6,746,518		53,340,531
Foreign market development expenses		242,525		112,727
Storage charges		-		29,500
Other expenses		386,030		397,032
	₩	656,092,521	₩	683,468,912

Hankook Tire Co., Ltd.
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28. Finance Income

Details of finance income for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Interest income		
Short-term financial assets	₩ 2,717,392	₩ 8,726,410
Trade and other receivables	4,799,182	6,180,819
Available-for-sales financial assets	9	904
	<u>7,516,583</u>	<u>14,908,133</u>
Gains on disposal of Available-for-sale financial assets	-	1,380
Gains on valuation of derivatives	101,918	-
Gains on transaction of derivatives	-	9,173,322
Gains on foreign currency translation	11,127,574	50,216,663
Gains on foreign currency transaction	64,698,393	23,897,313
	<u>₩ 83,444,468</u>	<u>₩ 98,196,811</u>

29. Finance Costs

Details of finance costs for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Interest expense		
Borrowings	₩ 15,100,954	₩ 9,044,581
Debentures	14,938,395	12,935,076
	<u>30,039,349</u>	<u>21,979,657</u>
Less: amounts capitalized on qualifying assets	<u>(5,705,594)</u>	<u>(6,233,800)</u>
	<u>24,333,755</u>	<u>15,745,857</u>
Losses on disposal of available-for-sale financial assets	789	8,539
Losses on valuation of derivatives	1,189,296	18,935
Losses on transaction of derivatives	1,265,065	2,314,100
Losses on foreign currency translation	28,337,033	14,336,890
Losses on foreign currency transaction	62,243,832	71,990,564
	<u>₩ 117,369,770</u>	<u>₩ 104,414,885</u>

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30. Other Non-operating Income

Details of other non-operating income for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
Commission income	₩	145,636,082	₩	132,623,019
Dividend income		35,786,664		-
Royalty income		32,396,962		28,795,538
Rental income		701,101		846,754
Gains on foreign currency transaction		69,519,198		75,688,291
Gains on foreign currency translation		35,872,429		8,213,691
Gains on disposal of property, plant and equipment		4,096,825		1,963,134
Gains on disposal of intangible assets		-		2,073
Gains on insurance settlements		6,410,525		13,120,369
Gains on transaction of derivatives		2,215,085		-
Miscellaneous income		9,774,894		5,524,460
	₩	<u>342,409,767</u>	₩	<u>266,777,329</u>

31. Other Non-operating Expenses

Details of other non-operating expenses for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
Donation	₩	3,388,973	₩	3,356,138
Losses on inventory obsolescence		-		1,636
Losses on abandonment of inventories		-		2,312,774
Losses on foreign currency transaction		81,742,094		76,557,813
Losses on foreign currency translation		8,225,648		12,738,439
Losses on disposal of trade receivables		106,912		59,073
Losses on disposal of property, plant and equipment		4,786,771		2,751,912
Losses on disposal of intangible assets		688		-
Casualty loss		478,654		140,738
Provision for other allowance		(30,461)		121,963
Other impairment loss		72,731		-
Impairment loss on subsidiaries		-		4,613,775
Miscellaneous loss		685,718		1,101,494
	₩	<u>99,457,728</u>	₩	<u>103,755,755</u>

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32. Tax Expense and Deferred Tax

Income tax expense for the periods ended December 31, 2016 and 2015, consists of:

<i>(in thousands of Korean won)</i>	2016		2015	
Current tax:				
Current tax on profits for the year	₩	150,512,131	₩	127,608,433
Deferred tax:				
Origination and reversal of temporary differences		(10,769,670)		(16,223,005)
Income tax charged(credited) directly to equity		2,146,282		4,681,961
Income tax expense	₩	<u>141,888,743</u>	₩	<u>116,067,389</u>

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

<i>(in thousands of Korean won)</i>	2016		2015	
Profit before income tax expense	₩	566,844,898	₩	468,262,122
Tax calculated at domestic tax rates applicable to profits in the respective countries		136,714,465		112,857,434
Tax effects of:				
Income not subject to tax		(2,469,726)		(45,220)
Expenses not deductible for tax purposes		1,574,825		1,774,707
Others		6,069,179		1,480,468
		<u>5,174,278</u>		<u>3,209,955</u>
Income tax expense	₩	<u>141,888,743</u>	₩	<u>116,067,389</u>
Effective tax rate		<u>25.0%</u>		<u>24.8%</u>

The tax effect relating to components of other comprehensive income (expenses) for the periods ended December 31, 2016 and 2015, is as follows:

<i>(in thousands of Korean won)</i>	2016			2015		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of net defined benefit liabilities	₩ (8,868,936)	₩ 2,146,283	₩ (6,722,653)	₩ (19,346,945)	₩ 4,681,961	₩ (14,664,984)

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The analysis of deferred tax assets and liabilities as at December 31, 2016 and 2015, is as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 20,888,083	₩ 21,181,972
Deferred tax asset to be recovered within 12 months	<u>5,066,862</u>	<u>2,581,656</u>
	<u>25,954,945</u>	<u>23,763,628</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(26,928,154)	(35,524,194)
Deferred tax liability to be recovered within 12 months	<u>(178,739)</u>	<u>(161,053)</u>
	<u>(27,106,893)</u>	<u>(35,685,247)</u>
Deferred tax assets (liabilities), net	<u>₩ (1,151,948)</u>	<u>₩ (11,921,619)</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>	2016			
	Beginning balance	Statement of comprehensive income	Other comprehensive income	Ending balance
Property, plant and equipment	₩ (21,806,066)	₩ 11,259,366	₩ -	₩ (10,546,700)
Inventories	1,360,238	(338,222)	-	1,022,016
Accrued income	(161,053)	25,889	-	(135,164)
Financial derivative assets and liabilities	4,582	(163,824)	-	(159,242)
Long term debts for employees	3,648,912	548,545	-	4,197,457
Other provisions	15,237,949	(221,461)	-	15,016,488
Net defined benefit liabilities	442,734	(2,710,525)	2,146,282	(121,509)
Accrued expenses	2,581,656	2,485,206	-	5,066,862
Advanced depreciation provision for non-depreciable assets	(11,868,748)	(3,624,524)	-	(15,493,272)
Advanced depreciation provision for depreciable assets	(321,488)	26,560	-	(294,928)
Gains and losses on foreign currency translation	(1,333,147)	1,289,573	-	(43,574)
Others	292,813	46,805	-	339,618
	<u>₩ (11,921,618)</u>	<u>₩ 8,623,388</u>	<u>₩ 2,146,282</u>	<u>₩ (1,151,948)</u>

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<i>(in thousands of Korean won)</i>	2015			
	Beginning balance	Statement of comprehensive income	Other comprehensive income	Ending balance
Property, plant and equipment	₩ (35,781,338)	₩ 13,975,272	₩ -	₩ (21,806,066)
Inventories	1,155,846	204,392	-	1,360,238
Accrued income	(1,215,163)	1,054,110	-	(161,053)
Financial derivative assets and liabilities	(1,382,129)	1,386,711	-	4,582
Long term debts for employees	3,542,881	106,031	-	3,648,912
Other provisions	4,927,509	10,310,440	-	15,237,949
Net defined benefit liabilities	2,865,678	(7,104,905)	4,681,961	442,734
Accrued expenses	2,918,188	(336,532)	-	2,581,656
Advanced depreciation provision for non-depreciable assets	(11,868,748)	-	-	(11,868,748)
Advanced depreciation provision for depreciable assets	(387,353)	65,865	-	(321,488)
Gains and losses on foreign currency translation	4,932,580	(6,265,727)	-	(1,333,147)
Others	2,147,426	(1,854,613)	-	292,813
	₩ (28,144,623)	₩ 11,541,044	₩ 4,681,961	₩ (11,921,618)

Details of unrecognized deductible temporary differences as deferred tax assets as at December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015	Remarks
Deductible temporary difference	₩ 131,667,141	₩ 123,163,541	Uncertainty of realization of temporary differences

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33. Expenses by Nature

Expenses by nature for the periods ended December 31, 2016 and 2015, are as follows:

*(in thousands of
Korean won)*

	2016			
	Cost of sales	Selling and administrative expenses	Research and development expenses	Total
Changes in inventories:				
Finished goods	₩ 8,687,056	₩ -	₩ -	₩ 8,687,056
Merchandise	(1,134,597)	-	-	(1,134,597)
Work in process	1,503,630	-	-	1,503,630
Supplies	1,017,130	-	-	1,017,130
Used raw materials	1,020,048,616	-	-	1,020,048,616
Payroll	414,097,980	104,660,420	85,562,704	604,321,104
Depreciation	171,564,809	22,323,353	11,227,643	205,115,805
Amortization	243,076	3,759,756	1,247,842	5,250,674
Commission fee	13,247,042	46,108,705	5,523,479	64,879,226
Others	517,433,030	479,240,287	47,983,101	1,044,656,418
	<u>₩ 2,146,707,772</u>	<u>₩ 656,092,521</u>	<u>₩ 151,544,769</u>	<u>₩ 2,954,345,062</u>

*(in thousands of
Korean won)*

	2015			
	Cost of sales	Selling and administrative expenses	Research and development expenses	Total
Changes in inventories:				
Finished goods	₩ 12,973,588	₩ -	₩ -	₩ 12,973,588
Merchandise	(569,527)	-	-	(569,527)
Work in process	2,111,193	-	-	2,111,193
Supplies	(30,640)	-	-	(30,640)
Used raw materials	1,135,420,734	-	-	1,135,420,734
Payroll	414,632,506	95,295,811	75,320,000	585,248,317
Depreciation	168,015,794	20,709,456	9,236,373	197,961,623
Amortization	2,116,583	2,445,315	1,043,743	5,605,641
Commission fee	12,993,853	37,995,560	6,145,026	57,134,439
Others	481,515,580	527,022,770	42,564,628	1,051,102,978
	<u>₩ 2,229,179,664</u>	<u>₩ 683,468,912</u>	<u>₩ 134,309,770</u>	<u>₩ 3,046,958,346</u>

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34. Earnings per Share

The Company's basic and diluted earnings per share for the periods ended December 31, 2016 and 2015, are computed as follows:

<i>(in Korean won)</i>	2016	2015
Profit for the period	₩ 424,956,154,894	₩ 352,194,733,603
Dividends for preferred shares	-	-
Profit attributable to the ordinary equity holders of the Company	424,956,154,894	352,194,733,603
Weighted-average number of ordinary shares outstanding (in shares)	<u>123,852,681</u>	<u>123,852,681</u>
Basic and diluted earnings per share ¹	<u>₩ 3,431</u>	<u>₩ 2,844</u>

¹ Basic and diluted earnings per share are the same because there is no potentially dilutive ordinary share issued by the Company.

35. Operating Segment Information

The Company has a single operating segment subject to Korean IFRS 1108 *Segment Reporting*; therefore, the separate segment reporting is not required.

Sales information by geographical segment for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
North America	₩ 1,148,153,551	₩ 1,044,939,438
South and Central America	168,237,152	179,326,758
Asia, except Korea	425,608,195	436,235,761
Europe	435,535,704	437,214,950
Domestic	<u>1,134,628,621</u>	<u>1,260,700,060</u>
	<u>₩ 3,312,163,223</u>	<u>₩ 3,358,416,967</u>

There is no external customer, who contributes more than 10% of the Company revenue for the periods ended December 31, 2016 and 2015.

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36. Cash Generated from Operations

Details of cash generated from operations for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016	2015
Adjustments:		
Income tax expense	₩ 141,888,743	₩ 116,067,389
Interest income	(7,516,583)	(14,908,133)
Interest expense	24,333,755	15,745,857
Gains on foreign currency translation	(47,000,003)	(32,111,004)
Losses on foreign currency translation	36,562,681	27,075,329
Dividend income	(35,786,664)	-
Losses on disposal of available-for-sale financial assets	789	8,539
Gains on disposal of available-for-sale financial assets	-	(1,380)
Gains on valuation of derivatives	(101,918)	-
Losses on valuation of derivatives	1,189,296	18,935
Gains on transaction of derivatives	(2,215,085)	(9,173,322)
Losses on transaction of derivatives	1,265,065	2,314,100
Gains on disposal of property, plant and equipment	(4,096,825)	(1,963,134)
Losses on disposal of property, plant and equipment	4,786,771	2,751,912
Casualty loss	476,254	-
Gains on disposal of intangible assets	-	(2,073)
Losses on disposal of intangible assets	688	1
Losses on disposal of trade receivables	106,912	59,073
Losses on inventory obsolescence	1,047	1,636
Losses on valuation of inventories(reversal)	(1,397,610)	844,595
Losses on abandonment of inventories	5,464,865	2,312,774
Impairment loss on receivables (reversal)	159,634	(183,988)
Depreciation of property, plant and equipment	205,115,805	197,961,623
Depreciation of investment properties	1,009,567	956,663
Amortization of intangible assets	5,250,674	5,605,641
Sales damage expense	(330,348)	53,340,531
Employee benefits	1,694,429	1,714,424
Post-employment benefit	54,013,587	50,626,127
Other provisions (reversal)	(30,461)	121,963
Other impairment loss(reversal)	72,731	(10,650)
Impairment loss on subsidiaries	-	4,613,775
Miscellaneous losses	223,132	-
	<u>₩ 385,140,929</u>	<u>₩ 423,787,203</u>

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<i>(in thousands of Korean won)</i>	2016		2015	
Changes in operating assets and liabilities:				
Decrease (increase) in trade receivables	₩	(51,424,927)	₩	83,791,165
Decrease (increase) in other receivables		(23,589,135)		4,422,753
Decrease in inventories		24,329,301		19,811,661
Decrease (increase) in other financial assets		494,357		(60,921)
Increase in other assets		(19,249,239)		(42,756,688)
Increase (decrease) in trade payables		18,334,170		(67,224,071)
Increase (decrease) in other payables		(124,502,922)		86,518,263
Decrease in provision		(274,032)		(12,606,849)
Decrease in other financial liabilities		(230,358)		(48,450)
Increase (decrease) in other liabilities		9,755,341		(11,143,467)
Payment of severance indemnities		(27,301,075)		(20,973,742)
Increase in plan assets		(47,598,559)		(63,477,608)
	₩	<u>(241,257,078)</u>	₩	<u>(23,747,954)</u>

The principal non-cash transaction for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
Transfer of construction in progress to intangible assets	₩	3,449,108	₩	3,358,010
Transfer of construction in progress to property, plant and equipment		181,063,104		72,790,869
Transfer of advance payments to intangible assets		-		2,115,838
Increase in non-trade payables in relation to acquisition of fixed assets		34,087,611		59,165,607
Decrease in non-trade payables in relation to acquisition of fixed assets		(59,165,607)		(37,956,622)

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37. Contingencies and Commitments

Pledged assets as collateral

As at December 31, 2016, a certain part of the Company's land, buildings, machinery and equipment is pledged as collateral for borrowings as follows:

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

Buildings, inventories, machinery and others are insured against a general liability insurance policy. The major insurance as at December 31, 2016, is as follows:

<i>(in thousands of Korean won)</i>	Insured property	Insured amount	Beneficiary
General liability insurance	Buildings and others	₩ 1,257,579,089	The Company
	Inventories	323,024,834	
	Machinery and others	<u>5,783,241,407</u>	
		<u>₩ 7,363,845,330</u>	

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

The Company is insured against potential future claims that may occur under the Product Liability Act in the Republic of Korea that was effective since July 1, 2002, which penalizes a manufacturer or seller when a product is defective and causes injury or damage to a person or property. The Company recognizes the best estimate amounting to ₩ 9,668,000 thousand (USD 8,000 thousand), which is expected to be paid, as provision for product liabilities (Note 19).

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

Transfer of financial assets

Financial assets and associated liabilities that are transferred, but not derecognized entirely, at the end of the reporting period, are categorized in the table below for the understanding.

<i>(in thousands of Korean won)</i>	2016		2015	
Assets	₩	457,536,145	₩	616,831,062
Associated liabilities		457,536,145		616,831,062

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Purchase agreement

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

Financing arrangements

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

<i>(in thousands of Korean won)</i>		2016	2015
Credit line agreements on discount trade	Used	₩ 721,183,808	₩ 969,910,344
receivable in foreign currencies and others ¹	Unused	<u>1,528,557,060</u>	<u>1,149,942,906</u>
		<u>₩ 2,249,740,868</u>	<u>₩ 2,119,853,250</u>

¹ The Company's total outstanding line of credit from KEB HANA Bank cannot exceed the credit limit to ₩180,000,000 thousand and bills bought; Usance L/C cannot exceed the credit limit amounting to USD 10,000 thousand and USD 200,000 thousand from Kookmin Bank and Standard Chartered Bank, respectively.

Pending litigations

As at December 31, 2016, the Company has two pending lawsuits in relation to overtime charges and related additional wage claims amounting to ₩3,290,884 thousand in total with current or retired employees, and the lawsuits are in process of third trial. As a result of second trial, the Company recognized the principal obligated for the payment as other provisions for ₩366,999 thousand, and this amount is subject to change as a result of litigation.

Additionally, the Company has 11 outstanding cases as a defendant amount to ₩4,848,065 thousand and 11 outstanding cases as a plaintiff amount to ₩6,560,206 thousand. The outcomes and effects of these litigations cannot be predicted at the end of the reporting period.

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Coinvestment agreement of shares acquisition

The Company acquired 20,806,200 shares of Hanon Systems Co., Ltd.(19.49% of ownership) from VIHI LLC, which is the largest shareholder that is an unlisted foreign corporation.

a) Details of Shares Purchase Agreement

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

b) Contract between purchasers

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

38. Related Party Transactions

Details of related parties as at December 31, 2016, are as follows:

Type	Name of related parties
Individuals	Yang-Rai Cho, Hyun-Shick Cho, Hyun-Bum Cho
Holding company ¹	Hankook Tire Worldwide Co., Ltd.
Holding company's subsidiaries and associates ¹	Atlas BX Co., Ltd., EmFrontier Inc., Atlas BX Motorsports Co., Ltd., Emfrontier America Inc., PT. EMFRONTIER ENS Indonesia
Domestic subsidiaries	Daehwa Engineering & Machinery Co., Ltd., MK Technology Corp., Hankook Donggeurami Partners Co., Ltd., HK Motors Co., Ltd. ²
Overseas subsidiaries	Hankook Tire America Corp., Hankook Tyre U.K. Ltd., Jiangsu Hankook Tire Co., Ltd., Hankook Tire China Co., Ltd., Shanghai Hankook Tire Sales Co., Ltd., Hankook Tire Netherlands B.V., Hankook Tire Japan Corp., Hankook Tire Canada Corp., Hankook Reifen Deutschland GmbH, Hankook Tire France SARL, Hankook Tire Italia S.R.L., Hankook Espana S.A., Hankook Tyre Australia Pty., Ltd., Hankook Tire Hungary Ltd., Hankook Tire Europe Holdings B.V, Hankook Tire Europe GmbH, Hankook Tire Budapest Kereskedelmi Kft, Hankook Tire DE Mexico, S.A. DE C.V., Chongqing Hankooktire Co., Ltd., Hankook Tire Rus LLC, PT. HANKOOKTIRE INDONESIA, MK Mold (Jiaxing) Co., LTD, Hankook Tire Singapore PTE., Ltd., Hankook Tire Malaysia SDN.BHD., Hankook Tire Sweden AB, Beijing Jielun Trading Company Co.,Ltd., Hankook Lastikleri A.S., Hankook Tire Polska Sp. z o.o., Hankook Tire Thailand Co.,Ltd., Hankook Tire de Colombia Ltda., Hankook Tire 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.
Domestic associates	Hanon Systems Co., Ltd. (formerly, Hanlla Visteon Corp.)

Hankook Tire Co., Ltd.

Notes to the Separate Financial Statements

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Other related parties ^{1,3} Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery Jiaying Co., Ltd., Another WTE Co., Ltd., H-2 WTE Co., Ltd., Another Geumsan Co., Ltd.

¹ Hankook Tire Worldwide Co., Ltd., Atlas BX Co., Ltd., EmFrontier Inc., Atlas BX Motorsports Co., Ltd., Emfrontier America Inc., PT. Emfrontier ENS Indonesia Inc., Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Another WTE Co., Ltd., H-2 WTE Co., Ltd. and Another Geumsan Co., Ltd. are the affiliates of the Company. However, the Company does not hold any shares of those affiliates.

² Newly established during current year and reclassified to a subsidiary.

³ Although the entity is not the related party of the Company in accordance with Korean IFRS 1024, the entity belongs to a large enterprise group in accordance with the Monopoly Regulation and Fair Trade Act.

Transactions between the Company and related parties for the periods ended December 31, 2016 and 2015, are as follows:

a) Sales and others

(in thousands of Korean won)

	2016			2015		
	Sales	Others	Total	Sales	Others	Total
Hankook Tire America Corp	₩1,060,652,047	₩ 51,462	₩1,060,703,509	₩ 957,571,342	₩ 61,162	₩ 957,632,504
Hankook Tire Canada Corp.	91,725,768	3,606	91,729,374	92,064,757	5,679	92,070,436
Hankook Tire DE Mexico, S.A. DE C.V.,	54,678,465	4,901	54,683,366	60,583,325	7,164	60,590,489
Hankook Tire de Colombia Ltda.	14,935,995	3,760	14,939,755	-	-	-
Hankook Tire Manufacturing Tennessee LP	-	2,235,138	2,235,138	-	-	-
Hankook Tire Netherlands B.V.,	24,644,056	135,795	24,779,851	38,439,793	12,294	38,452,087
Hankook Tyre U.K. Ltd.,	25,972,970	4,788	25,977,758	31,120,333	16,966	31,137,299
Hankook Reifen Deutschland GmbH	79,225,150	4,048	79,229,198	60,896,652	12,450	60,909,102
Hankook Tire France SARL,	9,767,913	555	9,768,468	17,255,750	13,917	17,269,667
Hankook Tire Italia S.R.L.	18,526,264	60,866	18,587,130	17,453,709	13,819	17,467,528
Hankook Espana S.A.	10,733,093	7,555	10,740,648	31,870,351	13,195	31,883,546
Hankook Tire Europe GmbH,	-	-	-	-	46,093	46,093
Hankook Tire Hungary Ltd.,	-	47,126,649	47,126,649	-	47,344,921	47,344,921
Hankook Tire Budapest Kereskedelmi Kft	17,649,996	1,375	17,651,371	13,845,818	10,098	13,855,916
Hankook Tire Rus LLC,	88,943,153	547	88,943,700	65,180,297	9,532	65,189,829
Hankook Tire Sweden AB	14,650,338	-	14,650,338	15,400,611	1	15,400,612
Hankook Lastikleri A.S.	33,802,252	-	33,802,252	29,679,351	-	29,679,351
Hankook Tire Polska Sp. z o.o.	34,847,086	1,483	34,848,569	23,658,245	52,390	23,710,635
Hankook Tire Czech	6,293,033	192	6,293,225	-	-	-
Hankook Tire Japan Corp.	29,745,068	12,064	29,757,132	23,316,541	30,234	23,346,775
Hankook Tyre Australia Pty	39,278,634	7,051	39,285,685	41,448,249	56,959	41,505,208
PT. HANKOOKTIRE INDONESIA	6,526,027	39,037,609	45,563,636	6,547,564	28,856,064	35,403,628
Hankook Tire Thailand Co., Ltd	3,590,282	13,416	3,603,698	5,977,888	136	5,978,024
Hankook Tire Malaysia SDN.BHD.	4,779,557	43,137	4,822,694	2,596,969	10,246	2,607,215
Hankook Tire Singapore PTE.,	-	397,456	397,456	-	196,934	196,934

Hankook Tire Co., Ltd.

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(in thousands of Korean won)

	2016			2015		
	Sales	Others	Total	Sales	Others	Total
Ltd.						
Hankook Tire China Co., Ltd.,	-	35,785,275	35,785,275	-	37,033,762	37,033,762
Jiangsu Hankook Tire Co., Ltd.,	-	32,302,591	32,302,591	-	35,635,227	35,635,227
Shanghai Hankook Tire Sales Co., Ltd.,	993,143	11,605	1,004,748	2,350,719	-	2,350,719
Chongqing Hankooktire Co., Ltd	-	24,061,318	24,061,318	-	15,817,004	15,817,004
MK Technology Corp.	-	6,828	6,828	-	12,778	12,778
Daehwa Engineering & Machinery Co., Ltd.	-	119,404	119,404	-	276,952	276,952
Hankook Donggeurami Partners Co., Ltd.	-	3,897	3,897	-	-	-
Hanon Systems Co., Ltd.	-	35,786,664	35,786,664	-	-	-
Atlas BX Co., Ltd.	-	413,616	413,616	-	218,628	218,628
EmFrontier Inc.	-	5,503	5,503	-	11,483	11,483
Hanyang Tire Sales Co., Ltd.	-	-	-	258,000	600	258,600
Hankook Tire Worldwide Co., Ltd.	-	114,808	114,808	-	88,827	88,827
	<u>W1,671,960,290</u>	<u>W 217,764,962</u>	<u>W1,889,725,252</u>	<u>W1,537,516,264</u>	<u>W165,865,515</u>	<u>W1,703,381,779</u>

b) Purchases and others

(in thousands of Korean won)

	2016			2015		
	Purchases	Others ¹	Total	Purchases	Others	Total
Hankook Tire America Corp.	W -	W 1,695	W 1,695	W -	W 8,744	W 8,744
Hankook Tire Canada Corp.	-	-	-	-	-	-
Hankook Tire DE Mexico, S.A. DE C.V.	-	2,984	2,984	-	300,064	300,064
Hankook Tire de Colombia Ltda.	-	766,648	766,648	-	1,319,618	1,319,618
Hankook Tire Netherlands B.V.	-	-	-	6,944	-	6,944
Hankook Tyre U.K. Ltd.	-	117,506	117,506	-	192,548	192,548
Hankook Reifen Deutschland GmbH	4,515	-	4,515	19,398	-	19,398
Hankook Tire France SARL	-	188,747	188,747	756	507,598	508,354
Hankook Tire Italia srl	-	35,460	35,460	-	124,564	124,564
Hankook Tire Espana S.A.	-	104,324	104,324	2,810	84,009	86,819
Hankook Tire Europe GmbH,	-	10,338,931	10,338,931	-	8,954,856	8,954,856
Hankook Tire Hungary Ltd.,	251,133	-	251,133	81,809	312	82,121
Hankook Tire Budapest Kereskedelmi Kft	-	275,826	275,826	503	189,815	190,318
Hankook Tire RUS LLC	-	856,549	856,549	-	807,734	807,734
Hankook Tire Sweden AB	-	808,827	808,827	-	693,200	693,200
Hankook Lastikleri A.S.	-	177,409	177,409	-	110,215	110,215
Hankook Tire Polska Sp. z o.o.	-	-	-	-	316	316
Hankook Tire Czech	-	18,682	18,682	-	-	-
Hankook Tyre Australia Pty.	-	566,245	566,245	-	506,554	506,554
PT. Hankook Tire Indonesia	26,313,108	37	26,313,145	4,326,679	-	4,326,679
Hankook Tire Thailand Co., Ltd	-	366,690	366,690	-	522,291	522,291
Hankook Tire Malaysia SDN.BHD.	-	257,475	257,475	-	302,647	302,647
Hankook Tire Singapore PTE., Ltd.	-	238,058	238,058	-	111,991	111,991
Hankook Tire China Co., Ltd.,	14,089,201	265,062	14,354,263	14,468,951	291,923	14,760,874

Hankook Tire Co., Ltd.

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(in thousands of Korean won)

	2016			2015		
	Purchases	Others ¹	Total	Purchases	Others	Total
Jiangsu Hankook Tire Co., Ltd.,	95,503,169	76,049	95,579,218	87,779,282	3,344	87,782,626
Chongging Hankooktire Co., Ltd	20,285,691	-	20,285,691	3,155,799	-	3,155,799
MK Technology Corp.	26,600,088	-	26,600,088	27,005,305	-	27,005,305
HK Motors Co., Ltd.	-	102,593	102,593	-	-	-
Daehwa Engineering & Machinery Co., Ltd.	41,230,082	90,618	41,320,700	46,199,180	70,844	46,270,024
Hankook Donggeurami Partners Co., Ltd.	-	1,439,480	1,439,480	-	-	-
Atlas BX Co., Ltd.	39,903,920	-	39,903,920	40,721,808	-	40,721,808
EmFrontier Inc.	-	33,603,583	33,603,583	-	44,292,644	44,292,644
Shin-Yang Tourist Development	-	201,284	201,284	-	221,819	221,819
Atlas BX Motorsports Co., Ltd.	-	350,000	350,000	-	-	-
Hankook Tire Worldwide Co., Ltd.	-	86,950,625	86,950,625	-	70,321,869	70,321,869
	<u>₩ 264,180,907</u>	<u>₩ 138,201,387</u>	<u>₩ 402,382,294</u>	<u>₩ 223,769,224</u>	<u>₩ 129,939,519</u>	<u>₩ 353,708,743</u>

¹ Sales rebates paid to related parties, which is deductible to sales, are presented in purchases.

Outstanding balances of receivables and payables as at December 31, 2016 and 2015, are as follows:

a) Receivables and others

(in thousands of Korean won)

	2016			2015		
	Trade receivables	Non-trade receivables	Total	Trade receivables	Non-trade receivables	Total
Hankook Tire America Corp.	₩ 401,050,214	₩ 76,178,259	₩ 477,228,473	₩ 352,496,931	₩ 19,219	₩ 352,516,150
Hankook Tire Canada Corp.	38,023,628	22,119	38,045,747	29,294,696	1,143	29,295,839
Hankook Tire DE Mexico, S.A. DE C.V.	25,405,153	9,571	25,414,724	28,149,986	1,146	28,151,132
Hankook Tire de Colombia Ltda.	13,080,710	7,707	13,088,417	-	-	-
Hankook Tire Manufacturing Tennessee LP	42,827	1,654,571	1,697,398	-	-	-
Hankook Tire Netherlands B.V.	7,816,696	57,344,947	65,161,643	14,841,476	3,018	14,844,494
Hankook Tyre U.K. Ltd.	10,549,193	6,256	10,555,449	13,244,041	23,964	13,268,005
Hankook Reifen Deutschland GmbH	31,831,250	-	31,831,250	25,194,377	29,345	25,223,722
Hankook Tire France SARL	4,232,040	2,961	4,235,001	8,928,288	3,841	8,932,129
Hankook Tire Italia S.R.L.	9,355,097	48,342	9,403,439	9,425,745	32,698	9,458,443
Hankook Espana S.A.	4,035,556	36,481	4,072,037	12,525,637	1,098	12,526,735
Hankook Tire Europe GmbH	-	105,265	105,265	-	3,567	3,567
Hankook Tire Hungary Ltd.	-	45,753,260	45,753,260	1,535,992	44,978,501	46,514,493
Hankook Tire Budapest Kereskedelmi Kft	6,361,477	-	6,361,477	5,745,538	37,747	5,783,285
Hankook Tire Rus LLC	56,217,190	-	56,217,190	25,951,398	1,458	25,952,856
Hankook Tire Sweden AB	7,314,273	-	7,314,273	7,099,705	-	7,099,705
Hankook Lastikleri A.S.	9,298,782	-	9,298,782	5,680,526	-	5,680,526
Hankook Tire Polska Sp. z o.o.	16,109,711	3,648	16,113,359	12,471,156	38,184	12,509,340
Hankook Tire Ceska Republika s.r.o.	3,202,784	1,238	3,204,022	2,581,291	2,811	2,584,102

Hankook Tire Co., Ltd.

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(in thousands of Korean won)

	2016			2015		
	Trade receivables	Non-trade receivables	Total	Trade receivables	Non-trade receivables	Total
Hankook Tire Japan Corp.	14,988,688	-	14,988,688	13,472,580	10,978	13,483,558
Hankook Tyre Australia Pty.	18,417,041	-	18,417,041	20,804,816	13,844	20,818,660
PT. HANKOOKTIRE INDONESIA	1,062,521	91,402,422	92,464,943	1,570,810	103,493,751	105,064,561
Hankook Tire Thailand Co., Ltd.	1,076,128	927	1,077,055	2,591,733	-	2,591,733
Hankook Tire Malaysia SDN.BHD.	1,748,822	14,381	1,763,203	929,532	-	929,532
Hankook Tire Singapore PTE., Ltd.	-	201,706	201,706	-	-	-
Hankook Tire China Co., Ltd.	-	87,107,144	87,107,144	127,242	101,190,998	101,318,240
Jiangsu Hankook Tire Co., Ltd.	-	29,162,950	29,162,950	-	28,941,229	28,941,229
Shanghai Hankook Tire Sales Co., Ltd.	83,867	13,153	97,020	-	-	-
Chongqing Hankooktire Co., Ltd.	416,356	80,656,293	81,072,649	169,604	164,265,785	164,435,389
MK Technology Corp.	-	484,145	484,145	-	145,870	145,870
Daehwa Engineering & Machinery Co., Ltd.	-	62,454	62,454	-	71,007	71,007
Atlas BX Co., Ltd.	-	-	-	-	14,035	14,035
EmFrontier Inc.	-	-	-	-	7,307	7,307
Hankook Donggeurami Partners Co., Ltd.	-	440	440	-	-	-
Shin-Yang Tourist Development	-	400,000	400,000	-	400,000	400,000
Hankook Tire Worldwide Co., Ltd.	-	1,865,261	1,865,261	-	1,863,563	1,863,563
	<u>₩ 681,720,004</u>	<u>₩ 472,545,901</u>	<u>₩ 1,154,265,905</u>	<u>₩ 594,833,100</u>	<u>₩ 445,596,107</u>	<u>₩ 1,040,429,207</u>

b) Payables and others

(in thousands of Korean won)

	2016			2015		
	Trade payable	Non-trade payables	Total	Trade payable	Non-trade payables	Total
Hankook Tire America Corp.	₩ -	₩ 533,130	₩ 533,130	₩ -	₩ 671,179	₩ 671,179
Hankook Tire Canada Corp.	-	104,897	104,897	-	73,901	73,901
Hankook Tire DE Mexico, S.A. DE C.V.	-	4,021	4,021	-	317	317
Hankook Tire de Colombia Ltda.	-	38,127	38,127	-	139,686	139,686
Hankook Tire Netherlands B.V.	-	5,983	5,983	-	4,052	4,052
Hankook Tyre U.K. Ltd.	-	111,676	111,676	-	364,451	364,451
Hankook Reifen Deutschland GmbH	-	19,135	19,135	-	59,709	59,709
Hankook Tire France SARL	-	55,694	55,694	-	91,946	91,946
Hankook Tire Italia S.R.L.	-	18,691	18,691	-	16,972	16,972
Hankook Espana S.A.	-	4,594	4,594	-	60,575	60,575
Hankook Tire Europe GmbH	-	2,403,665	2,403,665	-	1,681,595	1,681,595
Hankook Tire Hungary Ltd.	178,065	35,421	213,486	-	-	-
Hankook Tire Budapest Kereskedelmi Kft	-	18,935	18,935	-	5,599	5,599
Hankook Tire Rus LLC	-	39,616	39,616	-	52,981	52,981
Hankook Tire Sweden AB	-	50,444	50,444	-	25,428	25,428
Hankook Lastikleri A.S.	-	31,383	31,383	-	47,490	47,490

Hankook Tire Co., Ltd.
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(in thousands of Korean won)

	2016			2015		
	Trade payable	Non-trade payables	Total	Trade payable	Non-trade payables	Total
Hankook Tire Polska Sp. z o.o.	-	15,190	15,190	-	6,833	6,833
Hankook Tire Ceska Republika s.r.o.	-	25,626	25,626	-	1,002	1,002
Hankook Tire Japan Corp.	-	121,737	121,737	-	218,489	218,489
Hankook Tyre Australia Pty.	-	50,561	50,561	-	62,085	62,085
PT. HANKOOKTIRE INDONESIA	6,214,301	19,944	6,234,245	838,435	9,853	848,288
Hankook Tire Thailand Co., Ltd.	-	19,447	19,447	-	50,811	50,811
Hankook Tire Malaysia SDN.BHD.	-	22,423	22,423	-	33,135	33,135
Hankook Tire Singapore PTE., Ltd.	-	64,288	64,288	-	53,379	53,379
Hankook Tire China Co., Ltd.	4,118,702	-	4,118,702	2,135,474	-	2,135,474
Jiangsu Hankook Tire Co., Ltd.	19,765,330	-	19,765,330	10,276,667	-	10,276,667
Shanghai Hankook Tire Sales Co., Ltd.	-	30,435	30,435	-	3,202	3,202
Chongqing Hankooktire Co., Ltd.	7,559,814	-	7,559,814	661,546	-	661,546
MK Technology Corp.	-	3,220,378	3,220,378	-	1,892,614	1,892,614
HK Motors Co., Ltd.	-	5,044	5,044	-	-	-
Daehwa Engineering & Machinery Co., Ltd.	2,038,713	12,899,100	14,937,813	2,018,456	14,179,090	16,197,546
Hankook Donggeurami Partners Co., Ltd.	-	255,447	255,447	-	77,248	77,248
Shin-Yang Tourist Development	-	18,324	18,324	-	20,052	20,052
Atlas BX Co., Ltd.	17,451,702	-	17,451,702	19,366,915	-	19,366,915
EmFrontier Inc.	-	15,129,812	15,129,812	-	4,389,740	4,389,740
Hankook Tire Worldwide Co., Ltd.	-	29,060,712	29,060,712	-	32,072,627	32,072,627
	<u>₩ 57,326,627</u>	<u>₩ 64,433,880</u>	<u>₩ 121,760,507</u>	<u>₩ 35,297,493</u>	<u>₩ 56,366,041</u>	<u>₩ 91,663,534</u>

Hankook Tire Co., Ltd.
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Loans to related parties for the periods ended December 31, 2016 and 2015, are as follows:

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

<i>(in thousands of Korean won)</i>	2015				
	Beginning balance	Increase	Decrease	Exchange differences	Ending balance
Hankook Tyre Australia Pty., Ltd.	₩ 4,495,450	₩ -	₩ (4,495,450)	₩ -	₩ -
PT. HANKOOKTIRE INDONESIA	131,904,000	-	(54,960,000)	5,096,000	82,040,000
Chongqing Hankook Tire Co., Ltd.	142,896,000	-	-	9,464,000	152,360,000
Hankook Tire China Co., Ltd.	32,976,000	70,302,000	(32,976,000)	18,000	70,320,000
Jiangsu Hankook Tire Co., Ltd.	32,976,000	-	(32,976,000)	-	-
Hankook Tire Hungary Ltd.	66,826,000	-	(66,826,000)	-	-
	<u>₩ 412,073,450</u>	<u>₩ 70,302,000</u>	<u>₩ (192,233,450)</u>	<u>₩ 14,578,000</u>	<u>₩ 304,720,000</u>

Hankook Tire Co., Ltd.
Notes to the Separate Financial Statements
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The payment guarantees provided to the related parties, including overseas subsidiaries, as at December 31, 2016 and 2015, are as follows:

(in thousands of Korean won)

	Currency	Line of credit			
		2016		2015	
		Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
Hankook Tire China Co., Ltd.	USD	70,000,000	₩ 84,595,000	80,000,000	₩ 93,760,000
	CNY	-	-	350,000,000	62,468,000
Hankook Tire Europe GmbH	EUR	125,000,000	158,450,000	115,000,000	147,260,950
Hankook Tire Europe GmbH and 16 others	USD	20,000,000	24,170,000	20,000,000	23,440,000
Hankook Tire Hungary Ltd. ¹	EUR	209,000,000	264,928,400	448,000,000	573,677,440
	HUF	25,095,435,200	102,389,376	25,095,435,200	102,389,376
Jiangsu Hankook Tire Co.,Ltd.	USD	30,000,000	36,255,000	30,000,000	35,160,000
Chongqing Hankooktire Co.,LTD	USD	110,000,000	132,935,000	110,000,000	128,920,000
PT. HANKOOKTIRE INDONESIA	USD	130,000,000	157,105,000	240,000,000	281,280,000
Hankook Tire China Co., Ltd. Jiangsu HankookTire Co.,Ltd, Chongqing Hankooktire Co.,LTD	USD	30,000,000	36,255,000	130,000,000	152,360,000
Hankook Tire Singapore PTE., Ltd.	USD	280,000,000	338,380,000	390,000,000	457,080,000
Hankook Tire Japan Corp.	JPY	-	-	1,200,000,000	11,664,120
Hankook Tire Manufacturing Tennessee	USD	480,000,000	580,080,000	250,000,000	293,000,000
Hankook Tire Malaysia SDN.BHD.	USD	6,000,000	7,251,000	6,000,000	7,032,000
Hankook Tire Thailand Co., Ltd.	USD	3,000,000	3,625,500	8,000,000	9,376,000
Hankook Tire Rus LLC	RUB	450,000,000	8,995,500	450,000,000	7,182,000
	USD	1,159,000,000	1,400,651,500	1,264,000,000	1,481,408,000
	EUR	334,000,000	423,378,400	563,000,000	720,938,390
	HUF	25,095,435,200	102,389,376	25,095,435,200	102,389,376
	CNY	-	-	350,000,000	62,468,000
	JPY	-	-	1,200,000,000	11,664,120
	RUB	450,000,000	8,995,500	450,000,000	7,182,000
			₩ 1,935,414,776		₩ 2,386,049,886

Hankook Tire Co., Ltd.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

¹ The above guarantee amount includes direct suretyship provided to the Hungarian government as follows:

	1st agreement	2nd agreement
Guarantee provided	HUF 15,881,000,000 + interest incurred	HUF 9,214,435,200 + interest incurred
The term of guarantee	From October 31, 2005, to December 31, 2017	From February 27, 2014, to September 30, 2021
Summary of agreements	To certify that the Company should sincerely carry out the investment plan according to the investment contract; otherwise, the Company should return some or whole amount of the subsidy provided by the Hungarian government.	

Hankook Tire Worldwide Co., Ltd. (the surviving company) provides joint surety with the Company for the liabilities incurred before the spin-off. The guarantees and outstanding credit facility agreements provided by Hankook Tire Worldwide Co., Ltd. jointly and severally at the end of reporting period are as follows:

<i>(in thousands of Korean won, USD, HUF)</i>	2016		2015	
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
Payment guarantee				
HUF ¹	15,881,000	₩ 64,794,480	15,881,000	₩ 64,794,480
USD	-	-	130,000	152,360,000
		<u>₩ 64,794,480</u>		<u>₩ 217,154,480</u>
Credit facility agreements				
USD	70,000	₩ 84,595,000	70,000	₩ 82,040,000

¹ The above guarantee amount includes direct suretyship provided to the Hungarian government as follows:

	Remarks
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

Compensations for key management personnel for the periods ended December 31, 2016 and 2015, are as follows:

<i>(in thousands of Korean won)</i>	2016		2015	
Salaries	₩	9,315,012	₩	8,208,417
Post-employment benefits		251,442		1,462,882
		<u>₩ 9,566,454</u>		<u>₩ 9,671,299</u>

Hankook Tire Co., Ltd.
Notes to the Separate Financial Statements
December 31, 2016 and 2015

39. Business Combination

On July 1, 2015, the Company merged with Hanyang Tire Sales Co., Ltd. The transaction, a small-scale merger on the Commercial Code of the Republic of Korea, was approved by the Board of Directors on April 30, 2015.

The merger with Hanyang Tire Sales Co., Ltd. is a merger between subsidiaries of the Group. The Company succeeded the book amount of assets and liabilities of the consolidated financial statements.

Details of assets acquired and liabilities recognized at the date of acquisition are as follows:

(in thousands of Korean won)

Current assets	₩	209,788
Non-current assets		1,215,584
Total assets	₩	1,425,372
Current liabilities		2,121,016
Non-current liabilities		21,088
Total liabilities	₩	2,142,104
Net assets	₩	(716,732)

Details of net cash outflows on acquisition of subsidiaries during current period are as follows:

(in thousands of Korean won)

Consideration paid in cash	₩	-
Less: Cash and cash equivalent		(44,300)
	₩	(44,300)

Report on Independent Accountants' Review of Internal Accounting Control System

To the President of Hankook tire Co., Ltd.

We have reviewed the accompanying management's report on the operations of the Internal Accounting Control System ("IACS") of Hankook tire Co., Ltd.(the "Company") as of December 31, 2016. 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, 2016, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2016, in all material respects, in accordance with the IACS Framework.

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

A company's IACS is a system to monitor and operate those policies and procedures designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the Republic of Korea. Because of its inherent limitations, IACS may not prevent or detect a material misstatement of the financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that causes us to believe that management's report on the operations of the IACS, referred to above, is not presented fairly, in all material respects, in accordance with the IACS standards.

Our review is based on the Company's IACS as of December 31, 2016, and we did not review management's assessment of its IACS subsequent to December 31, 2016. 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, 2017

Report on the Operations of the Internal Accounting Control System

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

English Translation of a Report Originally Issued in Korean

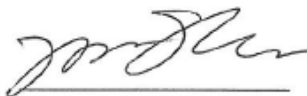
To the Board of Directors and Audit Committee of
Hankook Tire Co., Ltd.

I, as the Internal Accounting Control Officer ("IACO") of Hankook Tire Co., Ltd. ("the Company"), assessed the status of the design and operation of the Company's IACS for the year ended December 31, 2016.

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, 2016, in all material respects, in accordance with the IACS Framework.

March 7, 2017



Kim, Han Jun
Internal Accounting Control Officer



Suh, Seung Hwa
Chief Executive Officer