

**Hankook Tire Co., Ltd.**  
**Separate Financial Statements**  
**December 31, 2018 and 2017**

**Hankook Tire Co., Ltd.**

Index

December 31, 2018 and 2017

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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.

### Opinion

We have audited the accompanying separate financial statements of Hankook Tire Co., Ltd. (the Company), which comprise the separate statements of financial position as at December 31, 2018 and 2017, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of Hankook Tire Co., Ltd. as at December 31, 2018 and 2017, and its separate financial performance and its separate cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

### Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Valuation of Finished Goods Inventories

#### Key Audit Matter

As disclosed in Note 10 to the separate financial statements, the Company's finished goods amount to ₩ 140,994 million as at December 31, 2018. Inventories are initially measured at cost, and the amount of write down should be recognized when inventories have become damaged, obsolete, or if their net realizable value have declined, and is less than the cost. We considered that valuation of finished goods inventories is a key audit matter because the determination of the net realizable value of the finished goods inventories involves the significant level of management's judgements.

### **How our audit addressed the Key Audit Matter**

We have performed the following audit procedures in relation to the above key audit matter:

- We reviewed appropriateness of accounting policy on valuation of finished goods inventories.
- We assessed design and effectiveness of major internal controls relating to the valuation process of net realizable value and obsolescence of finished goods inventories.
- We tested the accuracy and completeness of aging data for finished goods inventories through sampling.
- We verified whether the Company's actual recent selling price is consistent with the estimated selling price used in calculation of net realizable value of finished goods inventories through sampling.
- We recalculated valuation allowance of finished goods prepared by the Company.

### **Other Matter**

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

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Seung-Kwon Ryoo, Certified Public Accountant.

Seoul, Korea  
March 20, 2019

This report is effective as of March 20, 2019, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

**Hankook Tire Co., Ltd.**  
**Separate Statements of Financial Position**  
**December 31, 2018 and 2017**

(in thousands of Korean won)

	Notes	2018	2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	W 144,575,887	W 130,080,012
Trade and other receivables	6,9,39	1,075,534,874	1,019,248,024
Inventories	10	339,777,939	342,250,881
Other financial assets	5,6,11	454,423,262	342,943,988
Other current assets	12	14,902,008	15,216,445
		<u>2,029,213,970</u>	<u>1,849,739,350</u>
<b>Non-current assets</b>			
Long-term financial assets	6	12,000	12,000
Available-for-sale financial assets	5,6	-	389,865
Financial assets at fair value through other comprehensive income	5,6,7	20,219,105	
Financial assets at fair value through profit or loss	5,6,7	1,500,000	
Investments in associates	13	1,061,740,386	1,061,740,386
Investments in subsidiaries	14	1,418,204,397	1,330,288,733
Property, plant and equipment	15	1,504,947,783	1,531,654,215
Investment properties	16	106,800,884	108,275,471
Intangible assets	17	35,468,767	42,559,322
Other financial assets	5,6,11	19,866,331	17,297,426
Other non-current assets	12	52,586,640	55,155,097
Net defined benefit assets	23	-	11,690,944
Deferred tax assets	33	33,947,096	7,168,152
		<u>4,255,293,389</u>	<u>4,166,231,611</u>
<b>Total assets</b>		<u>W 6,284,507,359</u>	<u>W 6,015,970,961</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	6,18,39	W 451,424,872	W 410,129,437
Borrowings	6,19	543,863,284	903,712,016
Current tax liabilities	33	82,901,023	27,041,249
Provisions	20	45,318,677	37,423,072
Other financial liabilities	5,6,21	5,605,246	6,915,600
Other current liabilities	22	31,078,138	35,980,677
		<u>1,160,191,240</u>	<u>1,421,202,051</u>
<b>Non-current liabilities</b>			
Borrowings	6,19	582,893,733	249,675,443
Net defined benefit liabilities	23	3,585,793	-
Provisions	20	24,161,982	15,588,344
Other financial liabilities	5,6,21	2,394,857	4,617,955
Other non-current liabilities	22	16,707,679	17,283,350
		<u>629,744,044</u>	<u>287,165,092</u>
<b>Total liabilities</b>		<u>1,789,935,284</u>	<u>1,708,367,143</u>
<b>Equity</b>			
Share capital	24	61,937,535	61,937,535
Other paid-in capital	25	2,457,107,991	2,457,107,991
Other components of equity	25	(12,295,069)	
Retained earnings	26	1,987,821,618	1,788,558,292
<b>Total equity</b>		<u>4,494,572,075</u>	<u>4,307,603,818</u>
<b>Total liabilities and equity</b>		<u>W 6,284,507,359</u>	<u>W 6,015,970,961</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, 2018 and 2017**

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

	Notes	2018	2017
<b>Sales</b>	27,36,39 ₩	3,193,229,260 ₩	3,266,619,241
<b>Cost of sales</b>	27,34,39	(2,295,365,671)	(2,264,159,840)
<b>Gross profit</b>		897,863,589	1,002,459,401
Selling and administrative expenses	28,34	(567,078,572)	(677,385,395)
Research and development expenses	34	(174,940,328)	(162,230,742)
<b>Operating profit</b>		155,844,689	162,843,264
Finance income	29	72,404,435	106,805,307
Finance costs	30	(96,922,712)	(92,511,032)
Other non-operating income	31	278,107,897	269,834,701
Other non-operating expense	32	(59,844,998)	(108,907,097)
<b>Profit before income tax</b>		349,589,311	338,065,143
Income tax expense	33	(105,653,555)	(48,627,536)
<b>Profit for the year</b>		₩ 243,935,756	₩ 289,437,607
<b>Other comprehensive income</b>			
<i>Items that may be subsequently reclassified to profit or loss</i>	25		
Cash flow hedges		(5,432,248)	-
<i>Items that will not be reclassified to profit or loss</i>	25		
Remeasurements of net defined benefit liabilities		4,868,643	16,708,225
Financial assets at fair value through other comprehensive income		(6,862,821)	-
<b>Other comprehensive income for the year, net of tax</b>		(7,426,426)	16,708,225
<b>Total comprehensive income for the year</b>		₩ 236,509,330	₩ 306,145,832
<b>Earnings per share</b>			
Basic and diluted earnings per share	35 ₩	1,970 ₩	2,337

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, 2018 and 2017**

(in thousands of Korean won)	Notes	Other paid-in capital				Other components of equity	Retained earnings	Total Equity
		Share capital	Share premium	Other share premium	Treasury shares			
<b>Balance as at January 1, 2017</b>		₩ 61,937,535	₩ 2,459,062,742	₩ (866,733)	₩ (1,088,018)	₩ -	₩ 1,531,953,532	₩ 4,050,999,058
<b>Total comprehensive income for the year</b>								
Profit for the year		-	-	-	-	-	289,437,607	289,437,607
Remeasurements of net defined benefit liabilities		-	-	-	-	-	16,708,225	16,708,225
<b>Transactions with owners :</b>								
Annual dividends	26	-	-	-	-	-	(49,541,072)	(49,541,072)
<b>Balance as at December 31, 2017</b>		₩ 61,937,535	₩ 2,459,062,742	₩ (866,733)	₩ (1,088,018)	₩ -	₩ 1,788,558,292	₩ 4,307,603,818
<b>Balance as at January 1, 2018</b>		₩ 61,937,535	₩ 2,459,062,742	₩ (866,733)	₩ (1,088,018)	₩ -	₩ 1,788,558,292	₩ 4,307,603,818
<b>Total comprehensive income for the year</b>								
Profit for the year		-	-	-	-	-	243,935,756	243,935,756
Cash flow hedges	25	-	-	-	-	(5,432,248)	-	(5,432,248)
Financial assets at fair value through other comprehensive income		-	-	-	-	(6,862,821)	-	(6,862,821)
Remeasurements of net defined benefit liabilities		-	-	-	-	-	4,868,643	4,868,643
<b>Transactions with owners :</b>								
Annual dividends	26	-	-	-	-	-	(49,541,072)	(49,541,072)
<b>Balance as at December 31, 2018</b>		₩ 61,937,535	₩ 2,459,062,742	₩ (866,733)	₩ (1,088,018)	₩ (12,295,069)	₩ 1,987,821,619	₩ 4,494,572,076

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, 2018 and 2017**

<i>(in thousands of Korean won)</i>	Notes	2018	2017
<b>Cash flows from operating activities</b>			
Cash generated from operating activities			
Profit for the year		₩ 243,935,756	₩ 289,437,607
Adjustments	37	376,199,782	318,138,757
Changes in operating assets and liabilities	37	<u>(68,973,376)</u>	<u>(140,441,713)</u>
		551,162,162	467,134,651
Interest income received		16,119,580	12,171,201
Interest expense paid		(28,323,730)	(31,759,022)
Dividends received		40,054,415	35,347,560
Income tax paid		<u>(73,886,558)</u>	<u>(119,355,248)</u>
<b>Net cash inflow from operating activities</b>		<u>505,125,869</u>	<u>363,539,142</u>
<b>Cash flows from investing activities</b>			
Net change in short-term financial assets		-	94,181,814
Payments for financial assets at fair value through profit or loss		(61,500,000)	-
Proceeds from disposal of financial assets at fair value through profit or loss		60,223,202	-
Payments for equity instruments at fair value through other comprehensive income		(29,295,200)	-
Payments for debt instruments at fair value through other comprehensive income		(458,810)	-
Proceeds from disposal of debt instruments at fair value through other comprehensive income		439,192	-
Payments for available-for-sale financial assets		-	(140)
Proceeds from disposal of available-for-sale financial assets		-	32
Payments for investments in subsidiaries		(87,915,663)	(63,403,297)
Proceeds from disposal of investments in subsidiaries		-	921,287
Payments for property, plant and equipment	15	(184,868,202)	(235,735,892)
Proceeds from disposal of property, plant and equipment	15	10,327,938	4,161,963
Proceeds from disposal of investment properties	16	651,468	-
Payments for intangible assets	17	(4,136,040)	(6,062,315)
Proceeds from disposal of intangible assets	17	201,029	-
Settlement of derivatives		(9,414,798)	1,747,472
Payments for other financial assets		(260,111,320)	(375,023,480)
Proceeds from disposal of other financial assets		<u>159,771,573</u>	<u>340,853,136</u>
<b>Net cash outflow from investing activities</b>		<u>(406,085,631)</u>	<u>(238,359,420)</u>
<b>Cash flows from financing activities</b>			
Net changes in short-term borrowings		(101,635,838)	149,813,475
Repayments of current portion of long-term liabilities		-	(36,415,000)
Repayments of long-term borrowings		-	(480,000)
Issuance of debentures		319,440,000	-
Return of bond issuance cost		(2,841,855)	-
Repayments of debentures		(250,000,000)	(130,425,000)
Dividends paid	26	<u>(49,541,072)</u>	<u>(49,541,072)</u>
<b>Net cash outflow from financing activities</b>		<u>(84,578,765)</u>	<u>(67,047,597)</u>
<b>Net increase in cash and cash equivalents</b>		<u>14,461,473</u>	<u>58,132,125</u>
Cash and cash equivalents at the beginning of the financial year		130,080,012	72,963,541
Effects of exchange rate changes on cash and cash equivalents		34,403	(1,015,654)
<b>Cash and cash equivalents at the end of the year</b>		<u>₩ 144,575,888</u>	<u>₩ 130,080,012</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, 2018 and 2017**

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**1. General Information**

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

As at December 31, 2018 and 2017, the Company's shareholders are as follows:

	2018		2017	
	Number of shares	Percentage of ownership (%)	Number of shares	Percentage of ownership (%)
Hankook Tire Worldwide Co., Ltd.	37,408,655	30.20	37,162,521	30.00
Yang Rai Cho	7,019,903	5.67	7,019,903	5.67
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 <sup>1</sup>	76,086,029	61.41	76,332,163	61.61
	<u>123,875,069</u>	<u>100.00</u>	<u>123,875,069</u>	<u>100.00</u>

<sup>1</sup> Including 22,388 treasury shares as at December 31, 2018.

**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.

# Hankook Tire Co., Ltd.

## Notes to the Separate Financial Statements

### December 31, 2018 and 2017

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The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea.

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

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

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

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018.

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

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure each investment separately at fair value through profit or loss in accordance with Korean IFRS 1109. The amendment does not have a significant impact on the financial statements because the Company is not a venture capital organization.

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

The amendment to Korean IFRS 1040 clarifies that a transfer to, or from, investment property, including property under construction, can only be made if there has been a change in use that is supported by evidence, and the list of evidence for a change of use in the standard was re-characterized as a non-exclusive list of example. The amendment does not have a significant impact on the financial statements.

##### *- Amendment to Korean IFRS 1102 *Share-based Payment**

Amendments to Korean IFRS 1102 clarify accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. Amendments also clarify that the measurement approach should treat the terms and conditions of a cash-settled award in the same way as for an equity-settled award. The amendment does not have a significant impact on the financial statements.

# Hankook Tire Co., Ltd.

## Notes to the Separate Financial Statements

### December 31, 2018 and 2017

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

According to the enactment, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The enactment does not have a significant impact on the financial statements.

- Korean IFRS 1109 *Financial Instruments*

The Company has applied Korean IFRS 1109 *Financial Instruments* on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures have not been restated, and the differences between previous book amounts and book amounts at the date of initial application are recognized to equity. See Note 41 for further details on the impact of the application of the standard.

- Korean IFRS 1115 *Revenue from Contracts with Customers*

The Company has applied to apply Korean IFRS 1115 *Revenue from Contracts with Customers*. In accordance with the transition provisions in Korean IFRS 1115, comparative figures have not been restated. The Company elected the modified retrospective approach, and recognized the cumulative impact of initially applying the revenue standard as an adjustment to retained earnings as at January 1, 2018, the period of initial application. See Note 41 for further details on the impact of the application of the standard.

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

Certain new accounting standards and interpretations that have been published that are not mandatory for annual reporting period commencing January 1, 2018 and have not been early adopted by the Company are set out below.

- Korean IFRS 1116 *Leases*

Korean IFRS 1116 *Leases* issued on May 22, 2017 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This standard will replace Korean IFRS 1017 *Leases*. The Company will apply the standards for annual periods beginning on or after January 1, 2019.

Under the new standard, with implementation of a single lease model, lessee is required to recognize assets and liabilities for all lease which lease term is over 12 months and underlying assets are not low value assets. A lessee is required to recognize a right-of-use asset and a lease liability representing its obligation to make lease payments.

# Hankook Tire Co., Ltd.

## Notes to the Separate Financial Statements

### December 31, 2018 and 2017

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The Company performed an impact assessment to identify potential financial effects of applying Korean IFRS 1116. The Company is analyzing the effects on the financial statements based on available information as at December 31, 2018 to identify effects on 2018 financial statements; however, it is difficult to provide reasonable estimates of financial effects until the analysis is complete.

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

The narrow-scope amendments made to Korean IFRS 1109 *Financial Instruments* enable entities to measure certain prepayable financial assets with negative compensation at amortized cost. When a modification of a financial liability measured at amortized cost that does not result in the derecognition, a modification gain or loss shall be recognized in profit or loss. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted.

#### - Amendments to Korean IFRS 1019 *Employee Benefits*

The amendments require that an entity shall calculate current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement based on updated actuarial assumptions from the date of the change. The amendments also require that a reduction in a surplus must be recognized in profit or loss even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendments are effective for plan amendments, curtailments and settlements occurring in reporting periods that begin on or after January 1, 2019.

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

The amendments clarify that an entity shall apply Korean IFRS 1109 to financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. These amendments will be applied for annual periods beginning on or after January 1, 2019, with early adoption permitted. In accordance with the transitional provisions in Korean IFRS 1109, the restatement of the comparative information is not required and the cumulative effects of initially applying the amendments retrospectively should be recognized in the beginning balance of retained earnings (or other components of equity, as appropriate) at the date of initial application.

#### - Enactment to Interpretation of Korean IFRS 2123 *Uncertainty over Income Tax Treatments*

The Interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment, and includes guidance on how to determine whether each uncertain tax treatment is considered separately or together. It also presents examples of circumstances where a judgement or estimate is required to be reassessed. This Interpretation will be applied for annual periods beginning on or after January 1, 2019, and an entity can either restate the comparative financial statements retrospectively or recognize the cumulative effect of initially applying the Interpretation as an adjustment in the beginning balance at the date of initial application.

# Hankook Tire Co., Ltd.

## Notes to the Separate Financial Statements

### December 31, 2018 and 2017

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- Annual Improvements to Korean IFRS 2015 – 2017 Cycle:

· Korean IFRS 1103 *Business Combination*

The amendments clarify that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. In such cases, the acquirer shall remeasure its entire previously held interest in the joint operation. These amendments will be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

· Korean IFRS 1111 *Joint Agreements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business. In such cases, previously held interests in the joint operation are not remeasured. These amendments will be applied to transactions in which an entity obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

· Paragraph 57A of Korean IFRS 1012 *Income Tax*

The amendment is applied to all the income tax consequences of dividends and requires an entity to recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. These amendments will be applied for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted.

· Korean IFRS 1023 *Borrowing Costs*

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use (or sale), it becomes part of general borrowings. These amendments will be applied to borrowing costs incurred on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early adoption permitted.

### 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.

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#### 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. They are deferred in other comprehensive income if they relate to qualifying cash flow hedges and qualifying effective portion of net investment hedges, or are attributable to monetary part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'other income or other expenses'.

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*

From January 1, 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss
- those to be measured at fair value through other comprehensive income, and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.



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For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

#### *(b) Measurement*

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.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

#### *A. Debt instruments*

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'finance income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'other income or expenses' in the year in which it arises.

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*B. Equity instruments*

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments, which held for long-term investment or strategic purpose, in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividend income from such investments continue to be recognized in profit or loss as 'finance income' when the right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognized in 'other income and expenses' in the statement of profit or loss as applicable. Impairment loss (reversal of impairment loss) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

*(c) Impairment*

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Company applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables. (Note 40 provides more detail of how the Company determines there has been a significant increase in credit risk.)

*(d) Recognition and Derecognition*

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

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.

*(e) Offsetting of financial instruments*

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

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#### 2.6 Derivative Instruments

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

#### 2.7 Trade Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowance. (See Note 9 for further information about the Company's accounting for trade receivables and Note 41 for a description of the Company's impairment policies)

#### 2.8 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

#### 2.9 Non-current Assets (or Disposal Group) Held for sale

Non-current assets (or disposal group) are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The assets are measured at the lower amount between their carrying amount and the fair value less costs to sell.

#### 2.10 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.

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

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

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

#### **2.11 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.

#### **2.12 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.

#### **2.13 Intangible Assets**

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

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

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

**2.14 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.

**2.15 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.

**2.16 Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities, unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

**2.17 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.

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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. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

#### **2.18 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 following and recognized in the statement of financial position within 'other financial liabilities'.

- the amount determined in accordance with the expected credit loss model under Korean IFRS 1109 *Financial Instruments* and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with Korean IFRS 1115 *Revenue from Contracts with Customers*

The Company recognized financial guarantee contracts provided to the subsidiaries for no compensation by recognizing other financial assets which will be amortized over the guarantee period.

#### **2.19 Provisions**

Provisions for service warranties and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. 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.

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#### **2.20 Current and Deferred Tax**

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

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

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

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

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

The Company recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In addition, The Company recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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.

#### **2.21 Employee Benefits**

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

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

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

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

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

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

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

## **2.22 Revenue Recognition**

From January 1, 2018, the Company has applied Korean IFRS 1115 *Revenue from Contracts with Customers*.

#### *(a) Identification of performance obligation*

For the product sales contract, the Company separates contracts to identify a performance obligation from service rendered, apart from sales of goods or products. The Company determines standard warranty coverage periods per product and customer considering warranty periods required by law and others when entering into contracts with customers for the sales of products. If the Company provides an extended warranty beyond the standard warranty coverage period or a customer has the option to purchase an additional warranty separately, the warranty is recognized as revenue by identifying a separate performance obligation.

#### *(b) Performance obligation at point in time*



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Revenue from sale of goods is recognized when products are delivered to the purchaser. Delivery occurs when the goods have been transferred to the specific location, the risks of obsolescence and loss have been transferred to the purchaser, and either the purchaser has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

The products are often sold with volume discounts and customers have a right to return faulty products. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. The Company recognizes provisions for product warranties based on reasonable expectation reflecting warranty obligation rates incurred historically.

*(c) Significant financial components*

In general, the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service is one year or less. In this case, the Company applies a practical expedient that does not adjust the promised amount of consideration for the effects of a significant financing component.

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**2.23 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.

**2.24 Approval of Issuance of the Financial Statements**

The separate financial statements 2018 were approved for issue by the Board of Directors on March 12, 2019 and are subject to change with the approval of shareholders at their Annual General Meeting.

**3. Critical Accounting Estimates and Assumptions**

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions 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. As the resulting accounting estimates will, by definition, seldom equal the related actual results, the estimates and assumptions have a significant risk of causing a material adjustments.

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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. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

#### *(a) Income taxes*

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

When a certain amount of taxable income has not been used for investment, wage increase and so on, for a certain period, the Company will bear the additional corporate tax calculated according to the method specified by the tax law. Therefore, when measuring the current and deferred tax for the current period, the effect of the tax should be reflected. 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) Impairment of financial assets*

The provision for impairment for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 40).

#### *(d) 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 23).

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#### *(e) Provisions*

The Company recognizes provision for warranty on products sold. The Company accrues provision for warranty based on the best estimate of amounts necessary to settle future and existing claims. The amounts are estimated based on past experience (Note 20).

#### *(f) Valuation of inventories*

Inventories are stated at the lower of cost and net realizable value. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realize. These estimates take into consideration fluctuations of price or cost directly relating to past experience, current market conditions and events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

## 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, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Total liabilities	₩ 1,789,935,284	₩ 1,708,367,144
Total equity	4,494,572,075	4,307,603,818
Debt ratio	39.82%	39.66%

(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.

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*(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 Financial 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.

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 operates internationally and is exposed to foreign exchange risk, primarily the USD, CNY and EUR. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities presented in currencies other than the Company's functional currency. The Company uses derivatives instruments to hedge the foreign exchange risk arising from forecast transactions.

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<i>(in thousands of Korean won)</i>	2018		2017	
	Assets	Liabilities	Assets	Liabilities
USD	₩ 790,814,806	₩ 737,563,722	₩ 455,246,587	₩ 436,551,736
CNY	281,712,667	964,003	421,714,453	45,265
EUR	190,327,580	142,426,770	220,576,000	169,076,996
Others	180,478,296	169,861,473	195,475,075	182,779,642

The impact of increased or decreased Korean won by 10% against foreign currencies with all other variables held constant on profit before income tax as at December 31, 2018 and 2017, is as follows:

<i>(in thousands of Korean won)</i>	2018		2017	
USD <sup>1</sup>	₩	15,388,008	₩	1,869,486
CNY <sup>1</sup>		8,169,318		11,138,879
EUR		4,790,081		5,149,900
Others		1,061,683		1,269,543
	₩	<u>29,409,090</u>	₩	<u>19,427,808</u>

<sup>1</sup>The effects of derivatives contract as at December 31, 2018 is included.

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, 2018 are as follows:

<i>(in thousands of Korean won, USD and CNY)</i>	The longest due date	Due date	Buying currency	Buying amount	Contract exchange rate	Selling currency	Selling amount
BNP Paribas and others	2019-11-13	2019-10-02	KRW	₩ 232,585,500	₩ 1,107.55	USD	210,000
Bank of America and others	2019-08-29	2019-11-13	KRW	<u>198,721,430</u>	162.49	CNY	1,223,000
				<u>₩ 431,306,930</u>			

For foreign currency forward contract, gains on valuation of derivatives amount to ₩3,970,028 thousand (2017: ₩3,424,427 thousand) and losses on valuation of derivatives amount to ₩1,742,472 thousand (2017: ₩860,656 thousand) is recognized in profit or loss for the year ended December 31, 2018

The Company entered in currency swap contract for which the Company receives and pays with fixed exchange rate and interest rate when settling principal and interest on foreign currency long-

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term debentures issued in the current period. The Company applies accounting for cash flow hedges on the derivatives, and the details are as follows:

<i>(in thousands of USD)</i>	<b>Contract amount</b>	<b>Contract exchange rate</b>	<b>KRW interest rate_pay (%)</b>	<b>Foreign currency interest rate_receive (%)</b>	<b>Contract commencement date</b>	<b>Contract end date</b>
Korea Development Bank	300,000 (total principal)	1061.5~1071.9	2.61~2.64	3.50	2018.01.25~2018.01.30	2023.01.30

For currency swap contract, gains on valuation after tax of derivatives recognized in other comprehensive income amount to ₩5,432,248 thousand (Note 8), and gains on valuation of derivatives amount to ₩147,940 thousand and losses on valuation of derivatives amount to ₩2,279,012 thousand are recognized in profit or loss for the year ended December 31, 2018.

*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.

The table below summarizes the impact of increases/decreases of interest rate in borrowings with floating interest rate on the Company's pre-tax profit for the year. The analysis is based on the assumption that the interest rate has increased/decreased by 10 basis point with all other variables held constant.

<i>(in thousands of Korean won)</i>	<b>Impact on profit before tax</b>		<b>Impact on equity</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
10 bp Increase	₩ -	₩ -	₩ -	₩ -
Decrease	-	-	-	-

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In order to reduce the impact of changes in interest rates about overseas subsidiary borrowings, the Company entered into interest rate swap contracts. A summary of derivative contracts as at December 31, 2018 is as follows:

<i>(in thousands of USD)</i>	<b>Contract date</b>	<b>Due date</b>	<b>Notional amount</b>	<b>Agreed interest rate(%)</b>	
				<b>Buy</b>	<b>Sell</b>
Bank of America	2016-12-13	2019-06-13	80,000	3M Libor	1.33%
JP Morgan	2017-03-13	2020-02-13	50,000	1M Libor	1.75%
JP Morgan	2017-03-13	2020-03-13	50,000	1M Libor	1.78%
			180,000		

For interest rate swap contracts, gains on valuation of derivatives amount to ₩593,795 thousand (2017: ₩2,270,864 thousand) and losses on valuation of derivatives amount to ₩126,349 thousand (2017: ₩ -) is recognized in profit or loss for the year ended December 31, 2018.

*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.

**Price risk**

The Company is exposed to equity securities price risk arises from investments held by the Company that are classified either as available-for-sale in the separated statement of financial position. If the equity securities price has increased/decreased by 5%, the Company's other comprehensive income would be increased/decreased by ₩991,462 thousand due to changes in fair value of financial assets at fair value through other comprehensive income for the year ended December 31, 2018.

**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.



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

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Financial guarantee contracts <sup>1</sup>	₩ 796,932,167	₩ 1,312,721,197

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

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

<i>(in thousands of Korean won)</i>	<b>Carrying amount</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Financial guarantee contracts	₩ 796,932,167	₩ 648,448,715	₩ -	₩ 148,483,452	₩ -

**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. 'Financing Arrangements' (Note 38) explains details of unused balances of credit facility agreements entered through the Company's discretion to reduce the liquidity risk.

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a) Details of liquidity and interest rate risk

(in thousands of Korean won)

	2018					
	Book amount	Contractual cash flows	Residual values			
			Within 1 year	1 to 2 years	2 to 5 years	Over 5 years
Trade payables	₩ 224,180,309	₩ 224,180,309	₩ 224,180,309	₩ -	₩ -	₩ -
Non-trade payables	159,419,809	159,419,809	159,419,809	-	-	-
Accrued expenses	67,806,777	67,806,777	67,806,777	-	-	-
Dividends payable	17,977	17,977	17,977	-	-	-
Leasehold deposits received	3,809,121	3,809,121	2,772,000	1,017,121	20,000	-
Short-term borrowings	543,863,284	543,863,284	543,863,284	-	-	-
Debentures	582,893,733	645,225,850	17,312,550	263,133,175	364,780,125	-
	<u>₩ 1,581,991,010</u>	<u>₩ 1,644,323,127</u>	<u>₩ 1,015,372,706</u>	<u>₩ 264,150,296</u>	<u>₩ 364,800,125</u>	<u>₩ -</u>

(in thousands of Korean won)

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

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As at December 31, 2018, Gross settlement contracts are composed of Currency forward contract, which will be settled within 11 months. These contracts are not included in above table and non-discounted contractual cash flow from this contracts are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Contractual Cash-in flow	₩	431,306,930	₩	308,460,300
Contractual Cash-out flow		429,079,374		305,896,529

**5. Fair Value**

For the year ended December 31, 2018, there were no changes in business environment and economic environment that have significant impacts on the fair value of assets and liabilities of the Company.

**5.1 Fair Value of Financial Instruments by Category**

Carrying amount and fair value of financial instruments by category as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Financial assets				
Available-for-sale financial assets	₩	-	₩	389,865
Financial assets at fair value through other comprehensive income	20,219,105	20,219,105	-	-
Financial assets at fair value through profit or loss	1,500,000	1,500,000	-	-
Financial derivative assets	13,206,049	13,206,049	5,797,210	5,797,210
Financial liabilities				
Financial derivative liabilities	1,742,472	1,742,472	860,656	860,656

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

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**5.2 Fair value Hierarchy**

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

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

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Financial assets at fair value through other comprehensive income	₩ 20,219,105	₩ -	₩ -	₩ 20,219,105
Financial assets at fair value through profit or loss	-	-	1,500,000	1,500,000
Financial derivative assets	-	13,206,049	-	13,206,049
Financial derivative liabilities	-	1,742,472	-	1,742,472

<i>(in thousands of Korean won)</i>	<b>2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Recurring fair value measurements				
Available-for-sale securities	₩ 389,865	₩ -	₩ -	₩ 389,865
Financial derivative assets	-	5,797,210	-	5,797,210
Financial derivative liabilities	-	860,656	-	860,656

**5.3 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.

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**5.4 Valuation Technique and the Inputs**

Valuation techniques and inputs used in levels 2 and 3 fair value measurements are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>			
	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>
Financial derivative assets				
Interest rate swap	₩ 1,513,022	2	Option pricing model	Underlying asset price, credit risk adjusted discount rate, underlying asset variability
Currency swap	7,722,999	2	Discounted cash flow model	Discount rate
Currency forward contract	3,970,028	2	Discounted cash flow model	Discount rate
Financial derivative liabilities				
Currency forward contract	1,742,472	2	Discounted cash flow model	Discount rate
Financial assets at fair value through profit or loss				
Beneficiary certificates	1,500,000	3	Market value approach	Recent transaction price
<i>(in thousands of Korean won)</i>	<b>2017</b>			
	<b>Fair value</b>	<b>Level</b>	<b>Valuation techniques</b>	<b>Inputs</b>
Financial derivative assets				
Interest rate swaps	₩ 2,372,783	2	Option pricing model	Underlying asset price, credit risk adjusted discount rate, underlying asset variability
Currency forward contract	3,424,427	2	Discounted cash flow model	<i>Exchange rate, Discount rate</i>
Financial derivative liabilities				
Currency forward contract	860,656	2	Discounted cash flow model	<i>Exchange rate, Discount rate</i>

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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, 2018 and 2017, are as follows:

*(in thousands of Korean won)*

		<b>2018</b>	<b>2017</b>
<b>Financial assets</b>			
Financial assets fair value	Financial assets at fair value through other comprehensive income	₩ 20,219,105	₩ -
	Available-for-sale financial assets	-	389,865
	Financial derivative assets	13,206,049	5,797,210
	Financial assets at fair value through profit or loss	1,500,000	-
Financial assets at amortized cost	Cash and cash equivalents	144,575,887	130,080,012
	Trade receivables	855,241,040	791,259,903
	Non-trade receivables	206,117,718	215,789,262
	Accrued income	14,176,117	12,198,859
	Leasehold deposits provided (current)	142,532	130,614
	Leasehold deposits provided (non-current)	6,298,170	7,727,349
	Short-term loans	448,818,665	334,759,797
	Long-term loans	3,375,666	5,228,489
	Long-term financial assets	12,000	12,000
	Financial guarantee contract assets (current)	1,090,774	3,301,944
	Financial guarantee contract assets (non-current)	1,357,737	3,296,012
		<u>₩ 1,716,131,460</u>	<u>₩ 1,509,971,316</u>

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*(in thousands of Korean won)*

		<b>2018</b>	<b>2017</b>
<b>Financial liabilities</b>			
Financial liabilities at			
fair value	Financial derivative liabilities	₩ 1,742,472	₩ 860,656
Financial liabilities	Trade payables	224,180,309	196,835,555
at amortized cost	Non-trade payables	159,419,809	156,158,649
	Accrued expenses	67,806,777	57,110,919
	Dividends payable	17,977	24,314
	Debentures	582,893,733	499,626,816
	Leasehold deposits received		
	(current)	2,772,000	2,753,000
	Leasehold deposits received		
	(non-current)	1,037,121	1,321,943
	Financial guarantee contract		
	liabilities (current)	1,090,774	3,301,944
	Financial guarantee contract		
	liabilities (non-current)	1,357,736	3,296,012
	Collateral loan on trade		
	receivables <sup>1</sup>	543,863,284	-
Other financial	Collateral loan on trade		
liabilities	receivables <sup>2</sup>	-	653,760,643
		<u>₩ 1,586,181,992</u>	<u>₩ 1,575,050,451</u>

<sup>1</sup> The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is the amortized cost of the rights and obligations retained by the transferor as the transferred asset is measured at amortized cost.

<sup>2</sup> Other financial liabilities relate to transfers of financial liabilities not qualify for derecognition that is not subject to categorization of financial liabilities.

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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 years ended December 31, 2018 and 2017, are as follows:

*(in thousands of Korean won)*

	2018	2017
Financial derivatives through profit or loss		
Gains on valuation of derivatives	₩ 563,931	₩ 4,834,635
Gain (losses) on transaction of derivatives	(13,305,776)	2,936,769
Cash flow hedges (after tax other comprehensive income)	(5,432,248)	-
Available-for-sale financial assets		
Interest income	-	1
Losses on disposal	-	(108)
Equity instruments at fair value through other comprehensive income		
Losses on valuation (after tax other comprehensive income)	(6,862,821)	-
Debt instruments at fair value through other comprehensive income		
Losses on disposal	(19,618)	-
Financial assets at amortized cost		
Interest income	17,506,928	12,308,183
Gains (losses) on foreign currency transaction	24,319,052	(54,504,408)
Losses on foreign currency translation	(13,465,808)	(42,347,000)
Impairment loss	(914,841)	(487,380)
Financial liabilities at amortized cost		
Interest expense	(31,960,014)	(12,327,138)
Gains (losses) on foreign currency transaction	(17,548,672)	6,675,169
Gains on foreign currency translation	8,915,161	1,956,563
Other financial liabilities		
Interest expense	-	(17,649,511)
Gains on foreign currency transaction	-	23,007,521
Gains on foreign currency translation	-	26,696,012
	<u>₩ (38,204,726)</u>	<u>₩ (48,900,692)</u>



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**7. Financial Assets**

**7.1 Financial Assets at Fair Value through Profit or Loss**

As explained in Note 2, the Company has applied Korean IFRS 1109 *Financial Instruments* from January 1, 2018. See Note 41 for the impact of the changes in accounting policies on the classification of financial assets and financial statements.

*(a) Equity instruments at fair value through profit or loss*

There are no equity instruments at fair value through profit or loss held by the Company as at December 31, 2018.

*(b) Debt instruments at fair value through profit or loss*

Debt instruments at fair value through profit or loss as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Non-current		
Beneficiary certificates	₩ 1,500,000	₩ -
	<u>₩ 1,500,000</u>	<u>₩ -</u>

**7.2 Financial Assets at Fair Value through Other Comprehensive Income**

*(a) Equity instruments at fair value through other comprehensive income*

Equity instruments at fair value through other comprehensive income as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017<sup>1</sup></b>
Non-current		
Listed shares and others <sup>1</sup>	₩ 20,219,105	₩ 389,865
	<u>₩ 20,219,105</u>	<u>₩ 389,865</u>

<sup>1</sup>In the prior financial year, the Company had designated equity investments as available-for-sale when the management intended to hold them for the medium to long-term.

Upon disposal of these equity investments, the accumulated other comprehensive income for these equity investments is reclassified to retained earnings and is not reclassified to profit or loss.

*(b) Debt instruments at fair value through other comprehensive income*

There are no debt instruments at fair value through other comprehensive income held by the Company as at December 31, 2018. Upon disposal of the debt instruments, the accumulated other comprehensive income is reclassified to profit or loss.

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**8. Derivative Financial Instruments**

Details of derivative financial instruments not applying hedge accounting as at December 31, 2018 and 2017, are as follows:

*(in thousands of Korean won)*

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Interest rate swap	₩ 1,513,022	₩ -	₩ 2,372,783	₩ -
Currency forward contracts	3,970,028	1,742,472	3,424,427	860,656
	₩ 5,483,050	₩ 1,742,472	₩ 5,797,210	₩ 860,656

Details of derivative financial instruments applying hedge accounting as at December 31, 2018 and 2017, are as follows (Note 4):

*(in thousands of Korean won)*

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges (currency swap) <sup>1</sup>	₩ 7,722,999	₩ -	₩ -	₩ -

<sup>1</sup> Other comprehensive income after tax recognized for the year ended December 31, 2018 from applying hedge accounting is as follows:

*(in thousands of Korean won)*

Change in value of derivatives (after tax)	Line items recognized in profit or loss	Reclassified amount in profit or loss (after tax)	Recognized amount in other comprehensive income (after tax)
₩ 7,144,201	Interest expense and differences on foreign currency (translation)	₩ (12,576,449)	₩ (5,432,248)

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**9. Trade and Other Receivables**

Details of trade and other receivables as at December 31, 2018 and 2017, are as follows:

*(in thousands of Korean won)*

	<b>2018</b>		
	<b>Gross amount</b>	<b>Less: Provision for impairment</b>	<b>Net amount</b>
Trade receivables	₩ 857,413,549	₩ (2,172,509)	₩ 855,241,040
Non-trade receivables	206,224,929	(107,211)	206,117,718
Accrued income	14,176,117	-	14,176,117
	<u>₩ 1,077,814,595</u>	<u>₩ (2,279,720)</u>	<u>₩ 1,075,534,875</u>

*(in thousands of Korean won)*

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

Movements on the provision for impairment of trade receivables and other receivables for the years ended December 31, 2018 and 2017, are as follows:

*(in thousands of Korean won)*

	<b>2018</b>		
	<b>Trade receivables</b>	<b>Non-trade receivables</b>	<b>Total</b>
Beginning balance	₩ 1,727,066	₩ 111,067	₩ 1,838,133
Impairment loss	894,413	20,428	914,841
Write-offs	(448,970)	(24,284)	(473,254)
Ending balance	<u>₩ 2,172,509</u>	<u>₩ 107,211</u>	<u>₩ 2,279,720</u>

*(in thousands of Korean won)*

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

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**Credit risk and provision for impairment**

The above trade and other receivables are measured at amortized cost. Changes in provision for impairment of trade and other receivables for the year ended December 31, 2018 are not significant. The Company considers changes in credit ratings of trade receivables from the commencement date of the credit granting to the end of the reporting period in determining the recoverability of the trade receivables.

The aging analysis of the trade receivables as at December 31, 2018 and 2017, are as follows:

*(in thousands of Korean won)*

	<b>2018</b>		
	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Total</b>
Receivables not past due	₩ 843,004,389	₩ 219,794,301	₩ 1,062,798,690
Past due but not impaired			
Below 3 months	12,199,151	448,950	12,648,101
3 to 6 months	123,032	37,336	160,368
Above 6 months	187,390	43,848	231,238
	<u>12,509,573</u>	<u>530,134</u>	<u>13,039,707</u>
Impaired	1,899,587	76,611	1,976,198
	<u>₩ 857,413,549</u>	<u>₩ 220,401,046</u>	<u>₩ 1,077,814,595</u>

*(in thousands of Korean won)*

	<b>2017</b>		
	<b>Trade receivables</b>	<b>Other receivables</b>	<b>Total</b>
Receivables not past due	₩ 779,060,731	₩ 226,809,994	₩ 1,005,870,725
Past due but not impaired			
Below 3 months	9,164,409	875,413	10,039,822
3 to 6 months	1,555,933	240,285	1,796,218
Above 6 months	2,143,616	92,181	2,235,797
	<u>12,863,958</u>	<u>1,207,879</u>	<u>14,071,837</u>
Impaired	1,062,281	81,315	1,143,596
	<u>₩ 792,986,970</u>	<u>₩ 228,099,188</u>	<u>₩ 1,021,086,158</u>

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**10. Inventories**

Details of inventories as at December 31, 2018 and 2017, and for the years ended December 31, 2018 and 2017, are as follows:

*(in thousands of  
Korean won)*

	December 31, 2018			2018
	Acquisition cost	Inventory valuation	Inventory valuation allowance	Valuation loss (reversal)
Finished goods	₩ 145,696,920	₩ 140,993,661	₩ 4,703,259	₩ 32,455
Merchandise	10,390,499	10,056,539	333,960	21,078
Work in process	19,976,434	19,976,434	-	-
Raw materials	73,042,782	73,042,782	-	(466,583)
Supplies	7,992,962	7,992,962	-	-
Materials in transit	87,715,561	87,715,561	-	-
	<u>₩ 344,815,158</u>	<u>₩ 339,777,939</u>	<u>₩ 5,037,219</u>	<u>₩ (413,050)</u>

*(in thousands of  
Korean won)*

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

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

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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**11. Other Financial Assets**

Details of other financial assets as at December 31, 2018 and 2017, are as follows:

*(in thousands of  
Korean won)*

	2018		2017	
	Current	Non-current	Current	Non-current
Loans <sup>1</sup>	₩ 448,818,665	₩ 3,375,666	₩ 334,759,796	₩ 5,228,489
Guarantee deposits provided	142,532	6,298,170	130,614	7,727,349
Financial derivative assets	4,371,291	8,834,758	4,751,634	1,045,576
Financial guarantee contract assets	1,090,774	1,357,737	3,301,944	3,296,012
	<u>₩ 454,423,262</u>	<u>₩ 19,866,331</u>	<u>₩ 342,943,988</u>	<u>₩ 17,297,426</u>

<sup>1</sup> The Company provides loans to its subsidiaries (Note 40).

**12. Other Assets**

Details of other assets as at December 31, 2018 and 2017, are as follows:

*(in thousands of  
Korean won)*

	2018		2017	
	Current	Non-current	Current	Non-current
Advance payments	₩ 1,349,961	₩ 52,150,587	₩ 715,319	₩ 54,656,498
Prepaid expenses	13,552,047	309,485	14,501,126	355,276
Others	-	126,568	-	143,323
	<u>₩ 14,902,008</u>	<u>₩ 52,586,640</u>	<u>₩ 15,216,445</u>	<u>₩ 55,155,097</u>

**Hankook Tire Co., Ltd.**  
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**13. Investment in Associates**

Details of the Company's investment in associates as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	Closing month	Location	Number of shares	2018		
				Percentage of ownership (%)	Acquisition cost	Book amount
Hanon Systems Co., Ltd. <sup>1</sup>	December	Korea	104,031,000	19.49	₩ 1,061,740,386	₩ 1,061,740,386

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

<sup>1</sup> As at December 31, 2018, the fair value of marketable investment in associates is ₩ 1,123,534,800 thousand (2017: ₩1,446,030,900 thousand). For the year ended December 31, 2018, the dividend received from the above associate is ₩ 33,289,920 thousand (2017: ₩ 31,209,300 thousand).

**14. Investment in Subsidiaries**

Details of the Company's subsidiaries as at December 31, 2018, 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

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Hankook Tire de Colombia Ltda.	Sales of tires	Colombia
Hankook Tyre Australia Retail Pty.,Ltd.	Sales of tires	Australia
Hankook Tires India LLP	Sales of tires	India
Hankook Tire Latam, S.A.	Trade and consulting	Panama
Hankook Tire Latin America Distribution Center, S.A.	Sales of tires	Panama
Hankook Donggeurami Partners Co., Ltd.	Facilities management service, baking	Korea
KCG 1 Private Equity Fund Limited Partnership	PEF	Korea
Model Solution Co., Ltd.	Manufacture of prototype and injection mold	Korea

Details of the Company's investments in subsidiaries as at December 31, 2018 and 2017, are as follows:

(in thousands of Korean won)

	<b>December 31, 2018</b>			
	<b>Number of shares</b>	<b>Percentage of ownership (%)</b>	<b>Acquisition cost</b>	<b>Book amount</b>
Daehwa Engineering & Machinery Co., Ltd.	380,000	95.00	₩ 1,900,000	₩ 1,900,000
Hankook Tire America Corp.	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. <sup>3</sup>	9,999	99.99	330,339	-
Chongqing Hankooktire Co., Ltd.	1	100.00	232,293,000	232,293,000
PT. HANKOOKTIRE INDONESIA	270,999	99.99	296,226,785	296,226,785
MK Technology Co., Ltd.	3,507,000	50.10	11,322,600	11,322,600
Hankook Tire Singapore PTE., Ltd.	1	100.00	1,118,960	1,118,960
Hankook Tire Malaysia	1,000,000	100.00	429,920	-



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SDN.BHD.				
Hankook Tire Thailand Co., Ltd.	1,029,998	99.99	3,770,823	1,670,823
Hankook Tire de Colombia Ltda.	999	99.99	106,084	-
Hankook Tyre Australia Retail Pty.,Ltd. <sup>6</sup>	7,081,200	100.00	61,527,879	61,527,879
Hankook Tires India LLP	10,000	99.99	1,482,073	1,482,073
Hankook Tire Latam, S.A.	100	100.00	56,535	56,535
Hankook Tire Latin America Distribution Center, S.A.	300	100.00	336,810	336,810
Hankook Donggeurami Partners Co., Ltd.	1,800,000	100.00	900,000	900,000
KCG 1 Private Equity Fund Limited Partnership <sup>4</sup>	1	80.00	19,000,000	19,000,000
Model Solution Co., Ltd. <sup>4</sup>	187,647	75.00	68,915,664	68,915,663
			<u>₩ 1,422,818,172</u>	<u>₩ 1,418,204,397</u>

(in thousands of Korean won)

December 31, 2017

	Number of shares	Percentage of ownership (%)	Acquisition cost	Book amount
Daehwa Engineering & Machinery Co., Ltd.	380,000	95.00	₩ 1,900,000	₩ 1,900,000
Hankook Tire America Corp.	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.	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

**Hankook Tire Co., Ltd.**  
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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 Tyre Australia Retail Pty.,Ltd.	7,081,200	100.00	61,527,879	61,527,879
Hankook Tires India LLP	10,000	99.99	1,482,073	1,482,073
Hankook Tire Latam, S.A.	100	100.00	56,535	56,535
Hankook Tire Latin America Distribution Center, S.A.	300	100.00	336,810	336,810
Hankook Donggeurami Partners Co., Ltd.	1,800,000	100.00	900,000	900,000
			₩ 1,334,902,508	₩ 1,330,288,733

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

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

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

<sup>4</sup> For the year ended December 31, 2018, the Company newly invested in KCG 1 Private Equity Fund Limited Partnership and acquired issued shares of Model Solution Co., Ltd. (Note 38)

**15. Property, Plant and Equipment**

Details of the book amount of property, plant and equipment as at December 31, 2018 and 2017, are as follows:

*(in thousands of Korean won)*

	<b>2018</b>		
	<b>Acquisition cost</b>	<b>Accumulated depreciation</b>	<b>Book amount</b>
Land	₩ 322,858,686	₩ -	₩ 322,858,686
Buildings	899,938,212	(269,084,815)	630,853,397
Structures	49,866,602	(27,093,033)	22,773,569
Machinery and equipment	1,953,897,747	(1,695,604,309)	258,293,438
Vehicles	34,492,457	(26,140,646)	8,351,811
Tools, furniture and fixtures	146,193,037	(117,017,264)	29,175,773
Molds	393,654,812	(255,915,958)	137,738,854
Machinery in transit	7,664,321	-	7,664,321
Construction in progress	87,237,934	-	87,237,934
	₩ 3,895,803,808	₩ (2,390,856,025)	₩ 1,504,947,783

*(in thousands of Korean won)*

**2017**

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

Changes in property, plant and equipment for the years ended December 31, 2018 and the 2017, are as follows:

(in thousands of Korean won)

	2018					Closing net book amount
	Opening net book amount	Acquisition	Disposal	Depreciation	Others <sup>1</sup>	
Land	₩ 257,304,432	₩ -	₩ (545,235)	₩ -	₩ 66,099,489	₩ 322,858,686
Buildings	648,531,468	5,101,080	(1,165,031)	(23,679,944)	2,065,824	630,853,397
Structures	23,504,788	761,566	(31,478)	(1,461,307)	-	22,773,569
Machinery and equipment	310,069,446	36,466,540	(433,815)	(117,291,307)	29,482,575	258,293,438
Vehicles	7,436,377	2,916,671	(17,267)	(2,412,164)	428,194	8,351,811
Tools, furniture and fixtures	36,168,102	4,994,687	(955,847)	(13,801,235)	2,770,066	29,175,773
Molds	130,841,891	42,544,638	(4,234,303)	(31,458,691)	45,320	137,738,854
Machinery in transit	9,226,714	5,066,208	-	-	(6,628,601)	7,664,320
Construction in progress	108,570,998	86,831,958	-	-	(108,165,022)	87,237,934
	<u>₩ 1,531,654,215</u>	<u>₩ 184,683,348</u>	<u>₩ (7,382,976)</u>	<u>₩ (190,104,650)</u>	<u>₩ (13,902,155)</u>	<u>₩ 1,504,947,783</u>

<sup>1</sup> Construction in progress and machinery in transit consist of account transfers to property, plant and equipment of ₩100,891,468 thousand, account transfers to intangible asset of ₩108,987 thousand and account transfers to loans of ₩13,793,168 thousand.

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

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

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

**Pledged assets as collaterals**

As at December 31, 2018, a certain portion of the Company's property, plant and equipment (land, buildings and machinery) is pledged as collaterals for its credit line and others. (Note 38).

**Hankook Tire Co., Ltd.**  
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**16. Investment Properties**

Details of investment properties as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	2018		
	Acquisition cost	Accumulated depreciation	Book amount
Land	₩ 82,858,717	₩ -	₩ 82,858,717
Buildings	41,674,246	(17,732,079)	23,942,167
	<u>₩ 124,532,963</u>	<u>₩ (17,732,079)</u>	<u>₩ 106,800,884</u>

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

Changes in investment properties for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	2018					
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 83,225,811	₩ -	₩ (367,094)	₩ -	₩ -	₩ 82,858,717
Buildings	25,049,660	-	(73,134)	(1,034,359)	-	23,942,167
	<u>₩108,275,471</u>	<u>₩ -</u>	<u>₩ (440,228)</u>	<u>₩ (1,034,359)</u>	<u>₩ -</u>	<u>₩106,800,884</u>

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

**Hankook Tire Co., Ltd.**  
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For the year ended December 31, 2018 and 2017, Depreciations of investment property are included in selling and administrative expenses.

Fair value of investment properties as at December 31, 2018 is ₩ 256,140,000 thousand (2017: ₩ 241,752,000 thousand).

For the year ended December 31, 2018, rental income from investment property is ₩ 3,498,259 thousand (2017: ₩ 3,466,653 thousand), and operating expenses from property that generated rental income are ₩ 1,120,385 thousand (2017: ₩ 869,897 thousand).

**17. Intangible Assets**

Details of intangible assets as at December 31, 2018 and 2017, are as follows:

*(in thousands of Korean won)*

	<b>2018</b>		
	<b>Acquisition cost</b>	<b>Accumulated amortization</b>	<b>Book amount</b>
Industrial rights	₩ 13,835,046	₩ (11,265,592)	₩ 2,569,454
Other intangible assets	92,289,208	(63,774,696)	28,514,512
Construction in progress	4,384,801	-	4,384,801
	<u>₩ 110,509,055</u>	<u>₩ (75,040,288)</u>	<u>₩ 35,468,767</u>

*(in thousands of Korean won)*

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

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Changes in intangible assets for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>					<b>Ending balance</b>
	<b>Beginning balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Amortization</b>	<b>Others<sup>1</sup></b>	
Industrial rights	₩ 2,480,066	₩ 288,693	₩ -	₩ (1,095,787)	₩ 896,482	₩ 2,569,454
Other intangible assets	35,993,959	508,280	(204,400)	(9,676,804)	1,893,477	28,514,512
Construction in progress	4,085,297	3,339,065	(358,589)	-	(2,680,972)	4,384,801
	<u>₩42,559,322</u>	<u>₩4,136,038</u>	<u>₩ (562,989)</u>	<u>₩ (10,772,591)</u>	<u>₩ 108,987</u>	<u>₩ 35,468,767</u>

<sup>1</sup> For the year ended December 31, 2018, construction in progress transferred to intangible assets were ₩2,680,972 thousand and account transfer from property, plant and equipment were ₩108,987 thousand.

<i>(in thousands of Korean won)</i>	<b>2017</b>					<b>Ending balance</b>
	<b>Beginning balance</b>	<b>Acquisition</b>	<b>Disposal</b>	<b>Amortization</b>	<b>Others<sup>2</sup></b>	
Industrial rights	₩2,508,260	₩517,773	₩ -	₩ (1,050,291)	₩504,324	₩2,480,066
Other intangible assets	20,601,755	2,982,362	-	(7,686,218)	20,096,060	35,993,959
Construction in progress	10,122,382	2,562,180	(247,075)	-	(8,352,190)	4,085,297
	<u>₩33,232,397</u>	<u>₩6,062,315</u>	<u>₩ (247,075)</u>	<u>₩ (8,736,509)</u>	<u>₩12,248,194</u>	<u>₩42,559,322</u>

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

**18. Trade and Other Payables**

Details of trade and other payables as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Trade payables	₩	224,180,309	₩	196,835,555
Non-trade payables		159,419,809		156,158,649
Accrued expenses		67,806,777		57,110,919
Dividends payable		17,977		24,314
	<u>₩</u>	<u>451,424,872</u>	<u>₩</u>	<u>410,129,437</u>

**19. Borrowings**

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Details of borrowings as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	2018		2017	
	Current	Non-current	Current	Non-current
Short-term borrowings	₩ 543,863,284	₩ -	₩ 653,760,643	₩ -
Debentures	-	582,893,733	249,951,373	249,675,443
	<u>₩ 543,863,284</u>	<u>₩ 582,893,733</u>	<u>₩ 903,712,016</u>	<u>₩ 249,675,443</u>

Details of short-term borrowings as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	Lender	Annual interest rate(%) <sup>2</sup>	2018	2017
Transfer of trade receivables <sup>1</sup>	Woori Bank and others	4.19	₩ 543,863,284	₩ 653,760,643
			<u>₩ 543,863,284</u>	<u>₩ 653,760,643</u>

<sup>1</sup> As transfer of trade receivables does not meet derecognition criteria, financial liabilities are recognized and secured by the Company's trade receivables (Note 38).

<sup>2</sup> It is a weighted average interest rate of financial liabilities recognized for the transfer of trade receivables.

Details of debentures as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	Issue date	Maturity date	Annual interest rate(%)	2017		2017	
				Current	Non-current	Current	Non-current
The 83-1st debentures	2015.03.12	2018.03.12	-	₩ -	₩ -	₩250,000,000	₩ -
The 83-2nd debentures	2015.03.12	2020.03.12	2.23	-	250,000,000	-	250,000,000
Long-term debentures in foreign currency <sup>1</sup>	2018.01.30	2023.01.30	3.50	-	335,430,000	-	-
Less: Discount on debentures				-	(2,536,267)	(48,627)	(324,557)
				<u>₩ -</u>	<u>₩582,893,733</u>	<u>₩249,951,373</u>	<u>₩249,675,443</u>

<sup>1</sup> The Company entered into currency swap contracts to hedge cash flow risks related to floating interest rates and foreign exchange rates of above borrowings (Note 8).



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**20. Provisions**

Changes in provisions for the years ended December 31, 2018 and 2017, are as follows:

*(in thousands of  
Korean won)*

	<b>2018</b>				
	<b>Beginning balance</b>	<b>Additional provisions</b>	<b>Used during the year</b>	<b>Exchange differences</b>	<b>Ending balance</b>
Provision for product liabilities	₩ 4,473,763	₩ 13,701,182	₩ (8,943,115)	₩ -	₩ 9,231,830
Provision for product warranties	47,998,799	13,616,050	(9,927,026)	-	51,687,823
Other provisions	538,853	8,022,153	-	-	8,561,006
	<u>₩ 53,011,415</u>	<u>₩ 35,339,385</u>	<u>₩ (18,870,141)</u>	<u>₩ -</u>	<u>₩ 69,480,659</u>

*(in thousands of  
Korean won)*

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

**21. Other Financial Liabilities**

Details of other financial liabilities as at December 31, 2018 and 2017, are as follows:

*(in thousands of  
Korean won)*

	<b>2018</b>		<b>2017</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Leasehold deposits received	₩ 2,772,000	₩ 1,037,121	₩ 2,753,000	₩ 1,321,943
Financial guarantee contract liabilities	1,090,774	1,357,736	3,301,944	3,296,012
Financial derivative liabilities	1,742,472	-	860,656	-
	<u>₩ 5,605,246</u>	<u>₩ 2,394,857</u>	<u>₩ 6,915,600</u>	<u>₩ 4,617,955</u>

**22. Other Liabilities**

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Details of other liabilities as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Contract liabilities	₩ 5,882,328	₩ -	₩ 11,677,112	₩ -
Withholdings	25,195,810	-	24,303,566	-
Long-term employee liabilities	-	16,707,679	-	17,283,351
	<u>₩ 31,078,138</u>	<u>₩ 16,707,679</u>	<u>₩ 35,980,678</u>	<u>₩ 17,283,351</u>

**23. Net Defined Benefit Liability**

The Company has both defined contribution and defined benefit plans.

**23.1 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, 2018, by Samsung Securities 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, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Present value of defined benefit obligations	₩	390,638,063	₩	356,060,330
Fair value of plan assets		<u>(387,052,270)</u>		<u>(367,751,274)</u>
Net defined benefit liabilities (assets)	₩	<u>3,585,793</u>	₩	<u>(11,690,944)</u>

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Movements in the defined benefit liabilities and the fair value of plan assets for the years ended December 31, 2018 and 2017, are as follows:

*(in thousands of Korean won)*

	<b>2018</b>		
	<b>Present value of defined benefit obligations</b>	<b>Fair value of plan assets</b>	<b>Total</b>
Beginning balance	356,060,330	(367,751,274)	(11,690,944)
Current service cost	47,957,828	-	47,957,828
Interest expense (income)	13,781,643	(13,595,189)	186,454
	<u>61,739,471</u>	<u>(13,595,189)</u>	<u>48,144,282</u>
Remeasurements:			
Return on plan assets (excluding amounts included in net interest)	-	6,632,443	6,632,443
Actuarial loss (gain) from change in demographic assumptions	-	-	-
Actuarial loss (gain) from change in financial assumptions	19,824,731	-	19,824,731
Actuarial loss (gain) from experience adjustments	(33,172,544)	-	(33,172,544)
	<u>(13,347,813)</u>	<u>6,632,443</u>	<u>(6,715,370)</u>
Employers' contributions	-	(25,000,000)	(25,000,000)
Benefit payments	(29,118,267)	27,966,092	(1,152,175)
Amount transferred from affiliates	15,304,342	(15,304,342)	-
Ending balance	<u>390,638,063</u>	<u>(387,052,270)</u>	<u>3,585,793</u>

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

The significant actuarial assumptions used in defined benefit obligations assessment as at December 31, 2018 and 2017, are as follows:

<i>(In percentage, %)</i>	<b>2018</b>	<b>2017</b>
Discount rate	3.31%	3.79%
Salary growth rate	5.62%	5.62%

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

<i>(in thousands of Korean won)</i>	<b>2018</b>	
	<b>Increase</b>	<b>Decrease</b>
1% change of discount rate	₩ (38,596,894)	₩ 45,785,536
1% change of salary growth rate	45,104,177	(38,789,581)

<i>(in thousands of Korean won)</i>	<b>2017</b>	
	<b>Increase</b>	<b>Decrease</b>
1% change of discount rate	₩ (35,482,547)	₩ 42,099,693
1% change of salary growth rate	41,689,614	(35,816,725)

Amounts recognized in statements of comprehensive income regarding defined benefit pension plans for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Current service cost	₩ 47,957,828	₩ 52,225,169
Interest cost	186,454	968,475
	<u>₩ 48,144,282</u>	<u>₩ 53,193,644</u>

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Plan assets as at December 31, 2018 and 2017, consist of:

<i>(in thousands of Korean won)</i>	2018		2017	
	Amount	Composition	Amount	Composition
Debt instruments	₩ 377,138,463	97.4%	₩ 354,764,049	96.5%
Cash and cash equivalents	5,113	0.0%	2,738,210	0.7%
Properties	9,908,694	2.6%	10,249,015	2.8%
	<u>₩ 387,052,270</u>	<u>100.0%</u>	<u>₩ 367,751,274</u>	<u>100.0%</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, 2019, are ₩ 50,482,164 thousand (2017: ₩ 34,221,287 thousand).

The expected maturity analysis of undiscounted pension benefits as at December 31, 2018 and, are as follows:

<i>(in thousands of Korean won)</i>	2018					Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years		
Pension benefits	₩ 14,348,868	₩ 21,297,760	₩ 75,002,222	₩ 1,578,097,915		₩ 1,688,746,765

  

<i>(in thousands of Korean won)</i>	2017					Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years		
Pension benefits	₩ 21,094,674	₩ 21,682,336	₩ 78,331,418	₩ 822,133,236		₩ 943,241,664

The weighted average duration of the defined benefit obligation is 11.72 years (2017: 11.65 years).

### 23. 2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 2,480,573 thousand. (2017: ₩ 1,772,437 thousand)

### 24. Share Capital

Details of share capital as at December 31, 2018 and 2017, are as follows:

<i>(in Korean won)</i>	2018		2017	
Authorized (shares)		250,000,000		250,000,000
Par value	₩	500	₩	500

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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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**25. Other Paid-in Capital and Other Components of Equity**

Details of other paid-in capital as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Share premium	₩ 2,459,062,742	₩ 2,459,062,742
Other capital surplus	(866,733)	(866,733)
Treasury shares <sup>1</sup>	<u>(1,088,018)</u>	<u>(1,088,018)</u>
	<u>₩ 2,457,107,991</u>	<u>₩ 2,457,107,991</u>
Cash flow hedges	₩ (5,432,248)	₩ -
Valuation of equity instruments at fair value through other comprehensive income	<u>(6,862,821)</u>	<u>-</u>
	<u>₩ (12,295,069)</u>	<u>₩ -</u>

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

**26. Retained Earnings and Dividends**

Details of retained earnings as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Legal reserve:		
Surplus reserve	<u>₩ 29,724,643</u>	<u>₩ 24,770,536</u>
	<u>29,724,643</u>	<u>24,770,536</u>
Discretionary reserve:		
Dividend equalization reserve	60,000,000	50,000,000
Director's retirement bonus reserve	5,000,000	5,000,000
Voluntary reserve	<u>61,000,000</u>	<u>50,000,000</u>
	126,000,000	105,000,000
Unappropriated retained earnings	<u>1,832,096,975</u>	<u>1,658,787,756</u>
	<u>₩ 1,987,821,618</u>	<u>₩ 1,788,558,292</u>

Dividend to the Company's ordinary shareholders amounted to ₩ 49,541,072 thousand (2017: ₩ 49,541,072 thousand) for the year ended December 31, 2017, was paid in 2018.



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Statements of retained earnings for the years ended December 31, 2018 and 2017, are as follows:

<i>(in Korean won)</i>	<b>2018</b>	<b>2017</b>
1. Retained earnings before appropriation		
Unappropriated retained earnings carried over from prior year	₩ 1,583,292,575,722	₩ 1,352,641,923,516
Profit for the year	243,935,755,810	289,437,607,240
Remeasurements of net defined benefit liabilities	<u>4,868,643,102</u>	<u>16,708,224,606</u>
	<u>₩ 1,832,096,974,634</u>	<u>₩ 1,658,787,755,362</u>
2. Appropriation of retained earnings		
Dividend equalization reserve	₩ 10,000,000,000	₩ 10,000,000,000
Voluntary reserve	11,000,000,000	11,000,000,000
Legal reserve	5,573,370,645	4,954,107,240
Cash dividends		
(Dividends per share: 2018: ₩450 (90%) 2017: ₩400 (80%))	<u>55,733,706,450</u>	<u>49,541,072,400</u>
	<u>₩ 82,307,077,095</u>	<u>₩ 75,495,179,640</u>
3. Unappropriated retained earnings to be carried forward to subsequent year	<u>₩ 1,749,789,897,539</u>	<u>₩ 1,583,292,575,722</u>

The appropriation of retained earnings for the year ended December 31, 2018, is expected to be appropriated at the shareholders' meeting on March 28, 2019. The appropriation date for the year ended December 31, 2017, was March 26, 2018.

**27. Sales and Cost of Sales**

Details of sales for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Sales of goods	₩ 3,072,295,910	₩ 3,263,204,780
Sale of finished goods	2,809,889,397	2,994,181,515
Sale of merchandise	298,078,999	315,616,248
Sale discount	(14,763,820)	(24,821,867)
Export commission	(7,600,594)	(4,190,541)
Sales incentive	(13,308,072)	(17,580,575)
Rendering of services	120,933,350	3,414,461
Rental sales	2,702,816	2,690,325
Service sales	<u>118,230,534</u>	<u>724,136</u>
	<u>₩ 3,193,229,260</u>	<u>₩ 3,266,619,241</u>

Details of cost of sales for the years ended December 31, 2018 and 2017, are as follows:

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<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Cost of finished goods sold	₩ 1,900,855,732	₩ 1,987,361,911
Cost of merchandise sold	272,058,879	278,470,941
Cost of shipping services sold	122,412,062	-
Custom duties reimbursed	(1,816,187)	(3,469,011)
Loss on valuation of inventories and others	1,855,185	1,795,999
	<u>₩ 2,295,365,671</u>	<u>₩ 2,264,159,840</u>

**28. Selling and Administrative Expenses**

Details of selling and administrative expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Payroll	₩ 78,227,292	₩ 74,459,361
Post-employment benefits	8,948,331	10,816,987
Service expenses	39,742,292	40,938,211
Employee benefits	15,649,202	14,250,209
Utility expenses	1,935,504	1,538,199
Supplies expenses	934,704	1,264,963
Repairs expenses	4,869,944	3,529,125
Test expenses	1,744,435	2,628,404
Overseas branch maintenance expenses	2,976,048	3,965,153
Travel expenses	3,891,451	4,632,370
Training expenses	1,481,422	730,475
Communication expenses	915,488	868,567
Entertainment expenses	1,825,213	2,697,918
Vehicles maintenance expenses	1,646,168	1,830,736
Publication expenses	835,135	424,911
Commission fees	52,875,075	54,093,722
Rental expenses	7,084,509	6,462,333
Depreciation of property, plant and equipment	13,387,073	18,046,414
Depreciation of investment property	1,034,360	1,030,795
Amortization of intangible assets	8,772,680	7,162,930
Insurance	3,915,034	3,875,717
Taxes and dues	10,362,972	7,540,185
Impairment loss	894,413	126,563
Conference expenses	76,373	80,084
Brand loyalty expenses	49,201,946	48,715,063
SSC service fee	4,117,377	20,851,829
Travel and transportation expenses	38,870,312	39,255,024
Ship transportation expenses	-	108,268,809

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Advertising	170,710,189	176,607,125
Other export expenses	9,415,264	9,904,176
Packing charges	2,938,939	4,133,115
Sales damage expenses	27,317,232	6,172,747
Foreign market development expenses	80,863	131,657
Other expenses	401,332	351,518
	<u>₩ 567,078,572</u>	<u>₩ 677,385,395</u>

**29. Finance Income**

Details of finance income for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Interest income	₩ 17,506,928	₩ 12,308,184
Gains on valuation of derivatives	4,711,764	5,695,291
Gains on transaction of derivatives	706,708	4,143,118
Gains on foreign currency translation	10,580,452	26,873,344
Gains on foreign currency transaction	38,898,583	57,785,370
	<u>₩ 72,404,435</u>	<u>₩ 106,805,307</u>

**30. Finance Costs**

Details of finance costs for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Interest expense	₩ 31,960,014	₩ 29,976,649
Losses on disposal of available-for-sale financial assets	-	108
Losses on disposal of financial assets at fair value through other comprehensive income	19,618	-
Losses on valuation of derivatives	4,147,833	860,656
Losses on transaction of derivatives	14,012,484	1,206,349
Losses on foreign currency translation	4,211,398	10,098,305
Losses on foreign currency transaction	42,571,365	50,368,964
	<u>₩ 96,922,712</u>	<u>₩ 92,511,032</u>

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**31. Other Non-operating Income**

Details of other non-operating income for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Royalty income	₩	145,526,862	₩	152,542,824
Dividend income		40,054,415		35,347,560
Commission income		37,082,932		34,045,126
Rental income		795,443		776,328
Gains on foreign currency transaction		43,215,712		39,660,666
Gains on foreign currency translation		1,966,716		2,365,901
Gains on disposal of property, plant and equipment		4,520,914		1,400,597
Gains on insurance settlements		23,586		32,883
Gains on disposal of investment properties		211,241		-
Others		4,710,076		3,662,816
	₩	<u>278,107,897</u>	₩	<u>269,834,701</u>

**32. Other Non-operating Expenses**

Details of other non-operating expenses for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Donation	₩	2,261,900	₩	1,268,500
Losses on abandonment of inventories		-		406,910
Losses on foreign currency transaction		32,783,840		71,083,386
Losses on foreign currency translation		12,886,417		32,835,365
Losses on disposal of trade receivables		-		95,884
Losses on disposal of property, plant and equipment		1,827,791		2,389,860
Losses on disposal of intangible assets		3,371		-
Casualty loss		-		3,202
Provision for other allowance(reversal)		70,600		171,854
Other impairment loss(reversal)		20,428		(25,533)
Losses on disposal of investments in subsidiaries		-		68,713
Others		9,990,651		608,957
	₩	<u>59,844,998</u>	₩	<u>108,907,098</u>

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**33. Tax Expense and Deferred Tax**

Income tax expense for the years ended December 31, 2018 and 2017, consists of:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Current tax:		
Current tax on profits for the year	₩ 120,439,130	₩ 100,994,453
Adjustments in respect of prior years	9,176,450	(37,709,217)
Deferred tax:		
Origination and reversal of temporary differences	(26,778,945)	(8,320,099)
Income tax charged(credited) directly to equity	2,816,920	(6,337,602)
Income tax expense	<u>₩ 105,653,555</u>	<u>₩ 48,627,535</u>

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

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Profit before income tax expense	<u>₩ 349,589,311</u>	<u>₩ 338,065,142</u>
Tax calculated at statutory tax rates applicable to profits in the respective countries	<u>85,775,060</u>	<u>81,349,765</u>
Tax effects of:		
Income not subject to tax	(2,899,272)	(2,788,946)
Expenses not deductible for tax purposes	5,120,412	2,310,927
Effect of tax credit and tax reduction	179,149	-
Additional payment (refunds) of income taxes	9,176,449	(37,709,217)
Recirculation tax	9,100,360	1,399,868
Others	(440,305)	4,065,134
Adjustments	<u>19,878,495</u>	<u>(32,722,234)</u>
Income tax expense	<u>₩ 105,653,555</u>	<u>₩ 48,627,535</u>
Effective tax rate	<u>30.2%</u>	<u>14.4%</u>

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The tax effect relating to components of other comprehensive income (expenses) for the years ended December 31, 2018 and 2017, is as follows:

<i>(in thousands of Korean won)</i>	2018			2017		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of net defined benefit liabilities	₩ 6,715,370	₩ (1,846,727)	₩4,868,643	₩ 23,045,827	₩ (6,337,602)	₩ 16,708,225
Cash flow hedges	(7,492,756)	2,060,508	(5,432,248)	-	-	-
Financial assets at fair value through other comprehensive income	(9,465,960)	2,603,139	(6,862,821)	-	-	-
	<u>₩ (10,243,346)</u>	<u>₩2,816,920</u>	<u>₩ (7,426,426)</u>	<u>₩ 23,045,827</u>	<u>₩ (6,337,602)</u>	<u>₩ 16,708,225</u>

The analysis of deferred tax assets and liabilities as at December 31, 2018 and 2017, is as follows:

<i>(in thousands of Korean won)</i>	2018	2017
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	₩ 48,200,669	₩ 22,280,815
Deferred tax asset to be recovered within 12 months	<u>6,886,594</u>	<u>5,138,963</u>
	<u>55,087,263</u>	<u>27,419,778</u>
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	(20,846,836)	(20,239,283)
Deferred tax liability to be recovered within 12 months	<u>(293,331)</u>	<u>(12,343)</u>
	<u>(21,140,167)</u>	<u>(20,251,626)</u>
Deferred tax assets (liabilities), net	<u>₩ 33,947,096</u>	<u>₩ 7,168,152</u>

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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>	2018			
	Beginning balance	Statement of comprehensive income	Other comprehensive income	Ending balance
Accrued income	₩ (12,560)	₩ (42,945)	₩ -	₩ (55,504)
Long term debts for employees	4,752,922	(158,310)	-	4,594,612
Accrued expenses	5,138,963	1,747,415	-	6,886,378
Property, plant and equipment	1,229,068	14,819,375	-	16,048,443
Net defined benefit liabilities	(4,222,429)	2,155,983	(1,846,727)	(3,913,172)
Financial derivative assets	652,978	366,121	2,060,508	3,079,606
Gains and losses on foreign currency translation	216	-	-	216
Advanced depreciation provision for non- depreciable assets	(17,210,321)	551,437	-	(16,658,884)
Inventories	1,498,824	(113,589)	-	1,385,235
Advanced depreciation provision for depreciable assets	(304,962)	30,182	-	(274,780)
Other provisions	14,578,139	2,342,365	-	16,920,504
Financial instruments at fair value through other comprehensive income	-	-	2,603,139	2,603,139
Others	1,067,314	2,263,989	-	3,331,303
	<u>₩ 7,168,152</u>	<u>₩ 23,962,024</u>	<u>₩ 2,816,920</u>	<u>₩ 33,947,096</u>

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<i>(in thousands of Korean won)</i>	<b>2017</b>			
	<b>Beginning balance</b>	<b>Statement of comprehensive income</b>	<b>Other comprehensive income</b>	<b>Ending balance</b>
Property, plant and equipment	₩ (10,546,700)	11,775,768	-	1,229,068
Inventories	1,022,016	476,808	-	1,498,824
Accrued income	(135,165)	122,605	-	(12,560)
Financial derivative assets and liabilities	(159,241)	812,219	-	652,978
Long term debts for employees	4,197,457	555,465	-	4,752,922
Other provisions	15,016,488	(438,349)	-	14,578,139
Net defined benefit liabilities	(121,509)	2,236,682	(6,337,602)	(4,222,429)
Accrued expenses	5,066,862	72,101	-	5,138,963
Advanced depreciation provision for non-depreciable assets	(15,493,271)	(1,717,050)	-	(17,210,321)
Advanced depreciation provision for depreciable assets	(294,927)	(10,035)	-	(304,962)
Gains and losses on foreign currency translation	(43,574)	43,790	-	216
Others	339,617	727,697	-	1,067,314
	<u>₩ (1,151,947)</u>	<u>14,657,701</u>	<u>(6,337,602)</u>	<u>7,168,152</u>

Details of unrecognized deductible temporary differences as deferred tax assets as at December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>	<b>Remarks</b>
Guarantee fee received and others	₩ 57,227,996	₩ 51,952,001	Uncertainty of realization of temporary differences



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**34. Expenses by Nature**

Expenses by nature for the years ended December 31, 2018 and 2017, are as follows:

(in thousands of Korean won)

	2018			
	Cost of sales	Selling and administrative expenses	Research and development expenses	Total
Changes in inventories:				
Finished goods	₩ 4,534,008	₩ -	₩ -	₩ 4,534,008
Merchandise	(2,048,399)	-	-	(2,048,399)
Work in process	4,952,624	-	-	4,952,624
Supplies	1,317,678	-	-	1,317,678
Raw materials	257,008	-	-	257,008
Purchase of raw materials and others	1,330,584,888	-	-	1,330,584,888
Payroll	410,979,847	102,824,825	89,608,150	603,412,822
Depreciation	152,112,244	14,421,433	24,605,332	191,139,009
Amortization	278,435	8,772,680	1,721,476	10,772,591
Commission fees	16,038,040	52,875,075	8,204,397	77,117,512
Others	376,359,298	388,184,559	50,800,973	815,344,830
	<u>₩ 2,295,365,671</u>	<u>₩ 567,078,572</u>	<u>₩ 174,940,328</u>	<u>₩ 3,037,384,571</u>

(in thousands of Korean won)

	2017			
	Cost of sales	Selling and administrative expenses	Research and development expenses	Total
Changes in inventories:				
Finished goods	₩ (17,217,947)	₩ -	₩ -	₩ (17,217,947)
Merchandise	(749,798)	-	-	(749,798)
Work in process	520,206	-	-	520,206
Supplies	227,932	-	-	227,932
Raw materials	(4,096,833)	-	-	(4,096,833)
Purchase of raw materials and others	1,374,076,234	-	-	1,374,076,234
Payroll	406,989,585	99,526,558	81,392,793	587,908,936
Depreciation	163,861,357	18,046,414	25,083,779	206,991,550
Amortization	209,381	7,162,930	1,364,199	8,736,510
Commission fees	14,079,130	54,093,722	5,791,798	73,964,650
Others	326,260,593	498,555,771	48,598,173	873,414,537
	<u>₩ 2,264,159,840</u>	<u>₩ 677,385,395</u>	<u>₩ 162,230,742</u>	<u>₩ 3,103,775,977</u>

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**35. Earnings per Share**

The Company's basic and diluted earnings per share for the years ended December 31, 2018 and 2017, are computed as follows:

<i>(in Korean won)</i>	<b>2018</b>	<b>2017</b>
Profit for the year	₩ 243,935,755,810	₩ 289,437,607,240
Weighted-average number of ordinary shares outstanding (in shares) <sup>1</sup>	123,852,681	123,852,681
Basic and diluted earnings per share <sup>2</sup>	₩ 1,970	₩ 2,337

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

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

**36. Operating Segment Information**

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

Sales information by geographical regions for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
	<b>Amount</b>	<b>Ratio (%)</b>	<b>Amount</b>	<b>Ratio (%)</b>
North America	₩ 1,020,707,808	32.0%	₩ 1,081,170,085	33.1%
South and Central America	187,145,857	5.9%	212,787,135	6.5%
Asia, except Korea	278,694,586	8.7%	375,310,631	11.5%
Europe	790,817,274	24.8%	603,240,096	18.5%
Domestic	915,863,735	28.6%	994,111,294	30.4%
	₩ 3,193,229,260	100.0%	₩ 3,266,619,241	100.0%

There is no external customer, who contributes more than 10% of the Company revenue for the years ended December 31, 2018 and 2017.

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**37. Cash Generated from Operations**

Details of adjustments of cash generated from operations for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>	<b>2017</b>
Adjustments:		
Income tax expense	₩ 105,653,555	₩ 48,627,535
Interest income	(17,506,928)	(12,308,184)
Interest expense	31,960,014	29,976,649
Gains on foreign currency translation	(12,547,168)	(29,239,245)
Losses on foreign currency translation	17,097,816	42,933,670
Dividend income	(40,054,415)	(35,347,560)
Losses on disposal of financial assets at fair value through other comprehensive income	19,618	-
Losses on disposal of available-for-sale financial assets	-	108
Gains on valuation of derivatives	(4,711,765)	(5,695,291)
Losses on valuation of derivatives	4,147,833	860,656
Gains on transaction of derivatives	(706,708)	(4,143,118)
Losses on transaction of derivatives	14,012,484	1,206,349
Gains on disposal of investment properties	(211,241)	-
Gains on disposal of property, plant and equipment	(4,520,914)	(1,400,596)
Losses on disposal of property, plant and equipment	1,827,791	2,389,860
Losses on disposal of intangible assets	3,371	-
Losses on disposal of trade receivables	-	95,884
Losses on inventory obsolescence	149,852	(39)
Losses on valuation of inventories(reversal)	(413,050)	1,227,061
Losses on abandonment of inventories	2,118,383	975,886
Impairment loss on trade receivables	894,413	126,563
Depreciation of property, plant and equipment	190,104,649	206,991,548
Depreciation of investment properties	1,034,359	1,030,795
Amortization of intangible assets	10,772,591	8,736,510
Sales damage expense (reversal)	27,317,232	6,172,748
Employee benefits	1,164,109	1,265,215
Post-employment benefit	48,144,282	53,193,644
Other provisions (reversal)	70,600	171,854
Other impairment loss(reversal)	20,428	(25,533)
Impairment loss on subsidiaries	-	68,713
Miscellaneous losses	358,591	247,075
	<u>₩ 376,199,782</u>	<u>₩ 318,138,757</u>

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<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Changes in operating assets and liabilities:				
Increase in trade receivables	₩	(76,587,601)	₩	(3,825,909)
Decrease (increase) in other receivables		8,815,000		(16,154,131)
Decrease in inventories		617,757		5,421,073
Decrease in other financial assets		1,438,428		724,695
Decrease (increase) in other assets		2,704,830		(615,675)
Increase (decrease) in trade payables		27,948,771		(34,445,350)
Increase (decrease) in other payables		10,089,513		(9,714,668)
Decrease in provision		(10,918,588)		(14,812,313)
Decrease in other financial liabilities		(265,822)		(389,755)
Decrease in other liabilities		(6,663,489)		(11,294,765)
Payment of post-employment benefits		(29,118,267)		(42,193,425)
Decrease (increase) in plan assets		2,966,092		(13,141,490)
	₩	<u>(68,973,376)</u>	₩	<u>(140,441,713)</u>

The principal non-cash transaction for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Transfer of construction in progress and others to intangible assets and property, plant and equipment	₩	103,681,427	₩	149,406,996
Transfer of construction in progress and others to loans		13,793,168		-
Increase in property, plant and equipment payables		(2,099,715)		(26,594,025)
Capitalized borrowing costs		1,914,862		1,248,448

Changes in liabilities arising from financial activities for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>				
	<b>Short-term borrowings<sup>1</sup></b>	<b>Long-term borrowings</b>	<b>Debentures (current)</b>	<b>Debentures (Non-current)</b>	<b>Dividend payables</b>
At January 1, 2018	₩ 653,760,643	₩ 249,951,373	₩ 249,675,443	₩ 24,314	₩ 1,153,411,773
Exchange differences	(8,261,521)	-	15,990,000	-	7,728,479
Cash flows	(101,635,838)	(250,000,000)	316,598,145	(49,541,072)	(84,578,765)
Amortization cost for					
Debentures	-	48,627	630,145	-	678,772
Others (dividend declaration and others)	-	-	-	49,534,736	49,534,736
At December 31, 2018	₩ <u>543,863,284</u>	<u>-</u>	<u>582,893,733</u>	<u>17,978</u>	<u>1,126,774,995</u>

<sup>1</sup>Includes current portion of long-term borrowings.

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<i>(in thousands of Korean won)</i>	2017				
	Short-term borrowings	Long-term borrowings	Debentures (current)	Debentures (Non-current)	Dividend payables
At January 1, 2017	₩ 567,058,180	₩ 480,000	₩ 130,381,159	₩ 499,244,432	₩ 19,485
Exchange differences	(26,696,012)	-	-	-	-
Cash flows	113,398,475	(480,000)	(130,425,000)	-	(49,541,072)
Transfer	-	-	249,951,373	(249,951,373)	-
Amortization cost for Debentures	-	-	43,841	382,384	-
Others(dividend declaration and others)	-	-	-	-	49,545,902
At December 31, 2017	₩ 653,760,643	₩ -	₩ 249,951,373	₩ 249,675,443	₩ 24,314

**38. Contingencies and Commitments**

**Pledged assets as collaterals**

As at December 31, 2018, a certain portion of the Company's land, buildings, machinery and equipment is pledged as collaterals for borrowings as follows:

<i>(in thousands of Korean won, USD)</i>	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, 2018, is as follows:

<i>(in thousands of Korean won)</i>	Insured property	Insured amount	Beneficiary
General liability insurance	Buildings and others	1,345,568,961	The Company
	Inventories	288,998,817	
	Machinery and others	5,316,305,161	
		<u>6,950,872,939</u>	

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

The Company is insured against potential future claims that may occur under the Product Liability Act in the Republic of Korea that was effective since July 1, 2002, which penalizes a manufacturer or seller when a product is defective and causes injury or damage to a person or property. The Company recognizes the best estimate amounting to ₩9,231,830 thousand, which is expected to

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be paid, as provision for product liabilities (Note 20).

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 130 thousand.

**Transfer of trade receivables**

Trade receivables that are transferred to financial institutions, but not matured, at the end of the reporting period, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Collateralized borrowing	₩	543,863,284	₩	653,760,643

The Company recognized trade receivables with recourse which were transferred to financial institutions, but not yet matured as short-term borrowings (Note 19).

**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, the Company has supply contracts with Hankook Tire Worldwide Co., Ltd., one of its related parties, to be provided trademark license and supporting work and to provide administrative work including finance, accounting, and legal affairs. Moreover, at the end of the reporting period, the Company has a long-term contract with EmFrontier Inc., one of its related parties, to be provided with maintenance service for the Company's information system.

**Financing arrangements**

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

<i>(in thousands of Korean won)</i>		<b>2018</b>		<b>2017</b>	
Credit line agreements on discount trade receivable in foreign currencies and others	Used	₩	1,084,416,883	₩	1,082,422,359
	Unused		1,366,600,977		1,237,221,841
		₩	<u>2,451,017,860</u>	₩	<u>2,319,644,200</u>

Seoul Guarantee Insurance Co., Ltd has provided guarantee amount to ₩1,038,386 thousand (2017: ₩962,696 thousand) for Performance guarantee and others.

The Company provide guarantee for its subsidiaries amount to ₩796,932,167 thousand (2017: ₩1,312,721,197). (Note 39)

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#### Pending litigations

As at December 31, 2018, 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 second trial as they were reversed and remanded from third trial during the year. As a result of second trial, the Company recognized the principal obligated for the payment as other provisions amounting to ₩609,453 thousand, and this amount is subject to change as a result of litigation. The final obligated amount can be differ from its estimates, depending on the outcome of litigation.

Additionally, the Company has many outstanding cases as a defendant or as a plaintiff. The ultimate outcome of these cases cannot be predicted reasonably. Management does not expect the outcome of the cases will have a material effect on the Company's financial position.

#### 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.

##### a) Details of Shares Purchase Agreement

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

##### b) Contract between shareholders

The purchasers above, the Company and Hahn & Co. Auto Holdings LLC entered into a contract between shareholders that includes the followings:

- Hahn & Co. Auto Holdings LLC's drag-along right
- Company's right of first refusal
- Company's tag-along right

#### Agreements related to shares acquisition

The Company acquired 140,735 shares (75% of ownership) of Model Solution Co., Ltd from Monet Holdings (45,035 shares) which is domestic PEF and Laird Holding Limited (95,700 shares) which is foreign corporation, shareholders of Model Solution Co., Ltd. In addition, the Company entered into a contract between shareholders with Monet Holdings in relation to investments in Model Solution Co., Ltd.

##### a) Details of Shares of Purchase Agreement

- Seller: Laird Holding Limited, Monet Holdings (Domestic PEF)

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- Purchaser: Hankook Tire Co., Ltd.
- Contract date: 2018. 05.31

b) Contract between shareholders

<b>Type</b>	<b>Name of related parties</b>
Limit on transfer of shares	1. Hankook Tire Co., Ltd. requires prior written consent if transfer of shares will not maintain the largest shareholder status, but, except for Model Solution Co., Ltd. after 1 year from IPO. 2. Monet Holdings is limited to transfer the shares to a company of the same business area or a competitor without prior consent of Hankook Tire Co., Ltd.
Tag-along right	Monet Holdings has tag-along right for the transfer of rights of Hankook Tire Co., Ltd, but except for the transfer of shares that are less than 15% of total issued shares for strategic purpose or the transfer of shares that maintain largest shareholder status within 1 year after IPO of Model Solution Co., Ltd.
Right of first refusal	Hankook Tire Co., Ltd has right of first refusal if Monet Holdings sells the shares to a third party.
Drag-along right	Monet Holdings has a drag-along right if Hankook Tire Co., Ltd. deliberately avoids IPO of Model Solution.
Put option	If IPO is not made within an agreed period, Monet Holdings has a put option and its selling price is principal amount of share of purchase agreement.

The Company has requested to review the system of the legality before taxation for the certain items of taxation amount received in relation to the tax investigation regarding its income tax in respect of the financial year of 2013 to 2017 and it is under investigation by the National Tax Service. The final result of this examination and its impact cannot be predicted at the end of the reporting period.



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#### 39. Related Party Transactions

Details of related parties as at December 31, 2018, are as follows:

Type	Name of related parties
Individuals	Yang-Rai Cho, Hyun-Shick Cho, Hyun-Bum Cho
Holding company <sup>1</sup>	Hankook Tire Worldwide Co., Ltd.
Holding company's subsidiaries and associates <sup>1</sup>	Atlas BX Co., Ltd., Atlas BX Motorsports Co., Ltd., EmFrontier Inc., Emfrontier America Inc., PT. EMFRONTIER ENS Indonesia, Atlasbx America Corporation, HK Automotive Co., Ltd., HK Motors Co., Ltd., Han Automobile Co., Ltd., JAX Motors Co., Ltd. (formerly, Flying Motors Co., Ltd.) <sup>3</sup>
Domestic subsidiaries	Daehwa Engineering & Machinery Co., Ltd., MK Technology Corp., Hankook Donggeurami Partners Co., Ltd. KCG 1 Private Equity Fund Limited Partnership, Model Solution Co., Ltd.
Overseas subsidiaries	Hankook Tire America Corp., Hankook Tyre U.K. Ltd., Jiangsu Hankook Tire Co., Ltd., Hankook Tire China Co., Ltd., Shanghai Hankook Tire Sales Co., Ltd., Hankook Tire Netherlands B.V., Hankook Tire Japan Corp., Hankook Tire Canada Corp., Hankook Reifen Deutschland GmbH, Hankook Tire France SARL, Hankook Tire Italia S.R.L., Hankook Espana S.A., Hankook Tyre Australia Pty., Ltd., Hankook Tire Hungary Ltd., Hankook Tire Europe Holdings B.V, Hankook Tire Europe GmbH, Hankook Tire Budapest Kereskedelmi Kft, Hankook Tire DE Mexico, S.A. DE C.V., Chongqing Hankooktire Co., Ltd., Hankook Tire Rus LLC, PT. HANKOOKTIRE INDONESIA, MK Mold (Jiaxing) Co., LTD, Hankook Tire Singapore PTE., Ltd., Hankook Tire Malaysia SDN.BHD., Hankook Tire Sweden AB, Beijing Jielun Trading Company Co., Ltd., Hankook Lastikleri A.S., Hankook Tire Polska Sp. z o.o., Hankook Tire Thailand Co., Ltd., Hankook Tire de Colombia Ltda., Hankook Tire 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.
Other related parties <sup>1,2</sup>	Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery Jiaxing Co., Ltd., Another WTE Co., Ltd., H-2 WTE Co., Ltd., Another Geumsan Co., Ltd., YKT Co., Ltd.

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

<sup>2</sup> Although the entity is not the related party of the Company in accordance with Korean IFRS 1024, the entity belongs to an identical large enterprise group with the Company in accordance with the Monopoly Regulation and Fair Trade Act.

<sup>3</sup> During the year ended December 31, 2018, the Company merged NEXZEN INC Co., Ltd. with Flying Motors Co., Ltd., a subsidiary of HK Automotive Co., Ltd., and changed its name to JAX Motors Co., Ltd.

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2018 and 2017**

Transactions between the Company and related parties for the years ended December 31, 2018 and 2017, are as follows:

a) Sales and others

(in thousands of Korean won)

	2018			2017		
	Sales	Others <sup>1</sup>	Total	Sales	Others <sup>1</sup>	Total
Hankook Tire Worldwide Co., Ltd.	₩ -	₩ 1,658,375	₩ 1,658,375	₩ -	₩ 111,892	₩ 111,892
Atlas BX Co., Ltd.	-	938,262	938,262	-	534,511	534,511
Flying Motors Co., Ltd.	-	-	-	-	8,891	8,891
HK Automotive Co., Ltd.	-	113,854	113,854	-	3,651	3,651
Atlasbx America Corporation	-	30,541	30,541	-	-	-
EmFrontier Inc.	-	58,680	58,680	-	24,841	24,841
Hankook Tire America Corp	929,836,954	365,651	930,202,605	983,737,665	12,400	983,750,065
Hankook Tire Canada Corp.	94,187,251	46,938	94,234,189	100,034,243	1,540	100,035,783
Hankook Tire DE Mexico, S.A. DE C.V.,	92,837,799	47,254	92,885,053	86,813,414	1,955	86,815,369
Hankook Tire de Colombia Ltda.	32,511,875	37,519	32,549,394	37,660,682	849	37,661,531
Hankook Tire Manufacturing Tennessee LP	-	6,576,973	6,576,973	-	6,159,217	6,159,217
Hankook Tire Netherlands B.V.,	43,641,996	287,230	43,929,226	32,280,905	1,303,585	33,584,490
Hankook Tyre U.K. Ltd., Hankook Reifen Deutschland GmbH	79,045,311 154,448,728	71,386 122,690	79,116,697 154,571,418	36,378,151 120,984,251	1,312 -	36,379,463 120,984,251
Hankook Tire France SARL,	48,750,304	86,424	48,836,728	30,255,704	445	30,256,149
Hankook Tire Italia S.R.L.	58,012,864	63,248	58,076,112	28,350,471	7,825	28,358,296
Hankook Espana S.A.	51,943,979	42,108	51,986,087	22,408,811	8,105	22,416,916
Hankook Tire Europe GmbH,	-	312,677	312,677	-	12,672	12,672
Hankook Tire Hungary Ltd., Hankook Tire Budapest Kereskedelmi Kft	2,881,908 27,872,707	44,518,033 40,987	47,399,941 27,913,694	3,092,217 20,126,770	46,376,767 -	49,468,984 20,126,770
Hankook Tire Rus LLC,	110,925,007	47,534	110,972,541	115,290,510	1,597	115,292,107
Hankook Tire Sweden AB	26,602,122	36,427	26,638,549	19,670,648	-	19,670,648
Hankook Lastikleri A.S.	34,385,353	37,341	34,422,694	45,074,720	-	45,074,720
Hankook Tire Polska Sp. z o.o.	52,447,947	40,427	52,488,374	42,590,916	1,050	42,591,966
Hankook Tire Czech	15,509,245	30,791	15,540,036	7,763,164	100	7,763,264
Hankook Tire Japan Corp.	21,459,377	73,290	21,532,667	34,157,723	7	34,157,730
Hankook Tyre Australia Pty Hankook Tyre Australia Retail Pty Ltd	32,579,591 -	70,461 -	32,650,052 -	36,054,876 -	- 12,636	36,054,876 12,636
PT. HANKOOKTIRE INDONESIA	4,114,572	31,985,605	36,100,177	8,524,408	34,606,873	43,131,281
Hankook Tire Thailand Co., Ltd	5,599,364	34,939	5,634,303	5,604,832	-	5,604,832
Hankook Tire Malaysia	3,493,433	37,790	3,531,223	4,574,641	2,819	4,577,460

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2018 and 2017**

(in thousands of Korean won)

	2018			2017		
	Sales	Others <sup>1</sup>	Total	Sales	Others <sup>1</sup>	Total
SDN.BHD.						
Hankook Tire Singapore PTE., Ltd.	-	541,656	541,656	-	616,012	616,012
Hankook Tire China Co., Ltd.,	-	37,867,846	37,867,846	-	37,772,532	37,772,532
Jiangsu Hankook Tire Co., Ltd.,	-	33,644,207	33,644,207	-	37,903,602	37,903,602
Shanghai Hankook Tire Sales Co., Ltd.,	762,897	308,604	1,071,501	1,184,642	-	1,184,642
Chongqing Hankooktire Co., Ltd	-	33,326,636	33,326,636	-	30,661,109	30,661,109
Hankook Tire Panama	39,251,044	8,864	39,259,908	16,765,123	317	16,765,440
Hankook Tire LATAM S.A.	-	743	743			
Hankook Tires India LLP	955,589	6,240	961,829	200,742	10	200,752
MK Technology Corp.	-	24,864	24,864	-	100	100
Hankook Donggeurami Partners Co., Ltd.	-	1,788	1,788	-	3,043	3,043
	<u>W1,964,057,217</u>	<u>W193,544,883</u>	<u>W2,157,602,100</u>	<u>W1,839,580,229</u>	<u>W196,152,265</u>	<u>W2,035,732,494</u>

<sup>1</sup> Royalty income, commission income, interest income from loan is included. Dividend income is not included. (Note 39)

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2018 and 2017**

b) Purchases and others

(in thousands of Korean won)

	2018			2017		
	Purchases	Others <sup>1</sup>	Total	Purchases	Others	Total
Hankook Tire Worldwide Co., Ltd. <sup>2</sup>	₩ -	₩ 57,503,879	₩ 57,503,879	₩ -	₩ 72,812,881	₩72,812,881
Atlas BX Co., Ltd.	21,193,594	-	21,193,594	37,424,770	-	37,424,770
Atlas BX Motorsports Co., Ltd.	684,784	-	684,784	-	679,928	679,928
HK Motors Co., Ltd.	-	92,498	92,498	-	1,472,229	1,472,229
HK Automotive Co., Ltd.	-	2,313	2,313	-	-	-
EmFrontier Inc.	-	24,016,986	24,016,986	-	32,759,036	32,759,036
Hankook Tire America Corp.	-	161	161	-	-	-
Hankook Tire Canada Corp.	-	-	-	1,311	-	1,311
Hankook Tire DE Mexico, S.A. DE C.V.,	7,504	-	7,504	-	5,283	5,283
Hankook Tire de Colombia Ltda.	-	224,247	224,247	-	193,392	193,392
Hankook Tire Netherlands B.V.,	5,964	-	5,964	7,577	-	7,577
Hankook Tyre U.K. Ltd.,	-	180,497	180,497	-	182,927	182,927
Hankook Reifen Deutschland GmbH	1,689	-	1,689	-	-	-
Hankook Tire France SARL,	-	165,036	165,036	-	203,736	203,736
Hankook Tire Italia S.R.L.	1,989	29,584	31,573	-	-	-
Hankook Espana S.A.	-	126,358	126,358	-	137,094	137,094
Hankook Tire Europe GmbH,	-	16,524,192	16,524,192	-	13,787,563	13,787,563
Hankook Tire Hungary Ltd.,	1,079,256	-	1,079,256	283,907	952	284,859
Hankook Tire Budapest Kereskedelmi Kft	-	475,235	475,235	-	529,056	529,056
Hankook Tire Rus LLC,	-	44,428	44,428	-	1,039,453	1,039,453
Hankook Tire Sweden AB	-	988,400	988,400	225	875,848	876,073
Hankook Lastikleri A.S.	-	190,292	190,292	-	224,157	224,157
Hankook Tire Ceska Republika s.r.o.	-	24	24	-	671	671
Hankook Tyre Australia Pty.	-	527,126	527,126	-	494,833	494,833
PT. HANKOOKTIRE INDONESIA	55,378,057	-	55,378,057	48,879,894	5,437	48,885,331
Hankook Tire Thailand Co., Ltd	-	560,397	560,397	-	280,066	280,066
Hankook Tire Malaysia SDN.BHD.	-	245,877	245,877	-	317,858	317,858
Hankook Tire Singapore PTE., Ltd.	-	-	-	-	191,601	191,601
Hankook Tire China Co., Ltd.,	5,808,835	662	5,809,497	12,689,317	92,532	12,781,849
Jiangsu Hankook Tire Co., Ltd.,	107,040,628	1,850	107,042,478	105,568,615	413	105,569,028
Chongging Hankooktire Co., Ltd	39,733,916	-	39,733,916	29,215,837	-	29,215,837
Shanghai Hankook Tire Sales Co., Ltd.	-	-	-	-	-	-
Hankook Tire Latin America Distribution Center, S.A.	-	501,380	501,380	-	191,907	191,907
Hankook Tire LATAM S.A.	-	341,499	341,499	-	111,845	111,845

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2018 and 2017**

(in thousands of Korean won)

	2018			2017		
	Purchases	Others <sup>1</sup>	Total	Purchases	Others	Total
Hankook Tire Ukraine LLC	-	1,162,205	1,162,205	-	-	-
Hankook Tires India LLP	-	130,296	130,296	-	98,715	98,715
Hankook Tire Manufacturing Tennessee LP	-	-	-	-	38,478	38,478
MK Technology Corp.	30,680,198	5,363	30,685,561	27,503,344	13,927	27,517,271
Daehwa Engineering & Machinery Co., Ltd.	40,266,496	33,097	40,299,593	30,401,808	96,666	30,498,474
Hankook Donggeurami Partners Co., Ltd.	-	4,265,398	4,265,398	-	3,678,639	3,678,639
Shin-Yang Tourist Development	-	148,316	148,316	-	208,598	208,598
	<u>₩ 301,882,910</u>	<u>₩ 108,487,596</u>	<u>₩ 410,370,506</u>	<u>₩ 291,976,605</u>	<u>₩ 130,725,721</u>	<u>₩ 422,702,326</u>

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

<sup>2</sup> As at December 31, 2018, the Company entered into contracts of Shared service provided by its holding company, and using trademark license of Hankook Tire Worldwide Co., Ltd.

Outstanding balances of receivables and payables as at December 31, 2018 and 2017, are as follows:

a) Receivables and others

(in thousands of Korean won)

	2018			2017		
	Trade receivables	Non-trade receivables	Total	Trade receivables	Non-trade receivables	Total
Hankook Tire Worldwide Co., Ltd	₩ -	₩ 2,992,434	₩ 2,992,434	₩ -	₩ 1,963,287	₩ 1,963,287
Atlas BX Co., Ltd.	-	423,096	423,096	-	-	-
JAX Motors Co., Ltd. (formerly, Flying Motors Co., Ltd.)	-	-	-	-	3,510	3,510
HK Automotive Co., Ltd.	-	-	-	-	2,653	2,653
Hankook Tire America Corp.	358,264,152	223,568	358,487,720	288,007,752	6,062	288,013,814
Hankook Tire Canada Corp.	34,069,816	-	34,069,816	28,686,519	16	28,686,535
Hankook Tire DE Mexico, S.A. DE C.V.,	49,731,904	46,802	49,778,706	46,485,897	5,606	46,491,503
Hankook Tire de Colombia Ltda.	9,506,028	-	9,506,028	11,170,168	-	11,170,168
Hankook Tire Manufacturing Tennessee LP	-	7,345,376	7,345,376	430,625	5,964,291	6,394,916
Hankook Tire Netherlands B.V.,	16,879,832	32,862	16,912,694	15,581,874	491,774	16,073,648
Hankook Tyre U.K. Ltd.,	26,954,800	40,017	26,994,817	16,269,892	4,573	16,274,465
Hankook Reifen Deutschland GmbH	39,415,760	114,379	39,530,139	64,434,548	-	64,434,548

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2018 and 2017**

(in thousands of Korean won)

	2018			2017		
	Trade receivables	Non-trade receivables	Total	Trade receivables	Non-trade receivables	Total
Hankook Tire France SARL,	13,475,120	43,445	13,518,565	19,114,257	2,276	19,116,533
Hankook Tire Italia S.R.L.	19,698,345	30,269	19,728,614	18,000,054	26,819	18,026,873
Hankook Espana S.A.	20,626,224	42,749	20,668,973	16,255,735	30,896	16,286,631
Hankook Tire Europe GmbH,	753,110	232,125	985,235	-	12,700	12,700
Hankook Tire Hungary Ltd.,	191,956	44,898,782	45,090,738	950,353	47,139,783	48,090,136
Hankook Tire Budapest Kereskedelmi Kft	7,807,435	21,492	7,828,927	9,952,905	-	9,952,905
Hankook Tire Rus LLC,	48,632,269	46,548	48,678,817	49,180,975	1,533	49,182,508
Hankook Tire Sweden AB	5,658,936	18,870	5,677,806	6,593,246	-	6,593,246
Hankook Lastikleri A.S.	6,843,324	38,175	6,881,499	11,419,636	-	11,419,636
Hankook Tire Polska Sp. z o.o.	12,291,545	28,976	12,320,521	16,844,635	3,340	16,847,975
Hankook Tire Ceska Republika s.r.o.	4,881,025	17,468	4,898,493	4,405,385	1,037	4,406,422
Hankook Tire Japan Corp.	9,448,200	-	9,448,200	13,932,760	7	13,932,767
Hankook Tyre Australia Pty.	13,784,392	36,117	13,820,509	16,780,437	-	16,780,437
PT. HANKOOKTIRE INDONESIA	740,607	29,327,181	30,067,788	4,035,330	31,369,001	35,404,331
Hankook Tire Thailand Co., Ltd	1,561,858	35,387	1,597,245	2,547,569	-	2,547,569
Hankook Tire Malaysia SDN.BHD.	801,416	21,155	822,571	1,260,545	2,214	1,262,759
Hankook Tire Singapore PTE., Ltd.	-	263,211	263,211	-	548,032	548,032
Hankook Tire China Co., Ltd.,	-	34,126,286	34,126,286	-	33,487,360	33,487,360
Jiangsu Hankook Tire Co., Ltd.,	-	32,521,787	32,521,787	445	36,045,315	36,045,760
Shanghai Hankook Tire Sales Co., Ltd.,	753,908	289,123	1,043,031	145,333	1,018	146,351
Chongqing Hankooktire Co., Ltd	-	24,562,152	24,562,152	-	23,671,491	23,671,491
Hankook Tire Latin America Distribution Center, S.A.	12,601,156	7,320	12,608,476	15,883,903	6,307	15,890,210
Hankook Tire LATAM S.A.	-	755	755	-	-	-
Hankook Tires India LLP	706,247	16,661	722,908	193,424	194	193,618
MK Technology Corp.	-	551,166	551,166	127,086	600,602	727,688
Daehwa Engineering & Machinery Co., Ltd.	-	31,908	31,908	-	17,875	17,875
Hankook Donggeurami Partners Co., Ltd.	-	983	983	-	-	-
Shin-Yang Tourist Development	-	400,000	400,000	-	400,000	400,000
	<u>₩716,079,365</u>	<u>₩ 178,828,625</u>	<u>₩ 894,907,990</u>	<u>₩678,691,288</u>	<u>₩ 181,809,572</u>	<u>₩ 860,500,860</u>

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2018 and 2017**

b) Payables and others

(in thousands of Korean won)

	2018			2017		
	Trade payable	Non-trade payables	Total	Trade payable	Non-trade payables	Total
Hankook Tire Worldwide Co., Ltd	₩ -	₩ 19,403,900	₩ 19,403,900	₩ -	₩ 26,648,034	₩ 26,648,034
Atlas BX Co., Ltd.	4,388,721	176,116	4,564,837	15,630,383	168,742	15,799,125
HK Motors Co., Ltd.	-	34,228	34,228	-	-	-
EmFrontier Inc.	-	6,505,119	6,505,119	-	10,962,817	10,962,817
Hankook Tire America Corp.	-	3,219,217	3,219,217	-	341,631	341,631
Hankook Tire Canada Corp.	-	121,902	121,902	-	630,900	630,900
Hankook Tire DE Mexico, S.A. DE C.V.	-	8,157	8,157	-	107,401	107,401
Hankook Tire de Colombia Ltda.	-	301,397	301,397	-	12,287	12,287
Hankook Tire Netherlands B.V.	3,310	7,427	10,737	875	4,166	5,041
Hankook Tyre U.K. Ltd.	-	63,748	63,748	-	407,161	407,161
Hankook Reifen Deutschland GmbH	375	29,632	30,007	-	9,920	9,920
Hankook Tire France SARL	-	106,306	106,306	-	22,410	22,410
Hankook Tire Italia S.R.L.	-	93,664	93,664	-	16,097	16,097
Hankook Espana S.A.	-	-	-	-	19,918	19,918
Hankook Tire Europe GmbH	-	3,154,535	3,154,535	-	2,672,624	2,672,624
Hankook Tire Hungary Ltd.	-	242,977	242,977	227,709	27,982	255,691
Hankook Tire Budapest Kereskedelmi Kft	-	146,216	146,216	-	76,956	76,956
Hankook Tire Rus LLC	-	8,056	8,056	-	68,565	68,565
Hankook Tire Sweden AB	614	111,848	112,462	-	141,020	141,020
Hankook Lastikleri A.S.	59,064	303,290	362,354	-	51,412	51,412
Hankook Tire Polska Sp. z o.o.	-	163,335	163,335	-	27,935	27,935
Hankook Tire Ceska Republika s.r.o.	-	10,765	10,765	-	1,744	1,744
Hankook Tire Ukraine LLC	-	21,937	21,937	-	-	-
Hankook Tire Japan Corp.	-	221,500	221,500	-	133,177	133,177
Hankook Tyre Australia Pty.	-	69,313	69,313	-	45,293	45,293
PT. HANKOOKTIRE INDONESIA	8,572,154	164,100	8,736,254	5,017,329	14,445	5,031,774
Hankook Tire Thailand Co., Ltd.	-	86,912	86,912	-	31,299	31,299
Hankook Tire Malaysia SDN.BHD.	-	20,445	20,445	-	27,391	27,391
Hankook Tire Singapore PTE., Ltd.	-	-	-	-	47,990	47,990
Hankook Tire China Co., Ltd.	497,777	-	497,777	1,357,538	74,389	1,431,927
Jiangsu Hankook Tire Co., Ltd.	15,416,437	-	15,416,437	12,714,673	-	12,714,673
Shanghai Hankook Tire Sales Co., Ltd.	-	199,199	199,199	-	92,082	92,082

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2018 and 2017**

(in thousands of Korean won)

	2018			2017		
	Trade payable	Non-trade payables	Total	Trade payable	Non-trade payables	Total
Chongqing Hankooktire Co., Ltd.	6,410,150	-	6,410,150	4,801,985	-	4,801,985
Hankook Tires India LLP	-	28,579	28,579	-	-	-
Hankook Tire Latin America Distribution Center, S.A.	-	63,001	63,001	-	40,131	40,131
Hankook Tire LATAM S.A.	-	-	-	-	19,032	19,032
MK Technology Corp.	-	2,489,771	2,489,771	-	2,331,154	2,331,154
Daehwa Engineering & Machinery Co., Ltd.	2,258,689	14,432,423	16,691,112	2,306,071	10,353,056	12,659,127
Hankook Donggeurami Partners Co., Ltd.	-	244,959	244,959	-	356,784	356,784
Shin-Yang Tourist Development	-	4,620	4,620	-	19,510	19,510
	<u>₩ 37,607,291</u>	<u>₩ 52,258,594</u>	<u>₩ 89,865,885</u>	<u>₩ 42,056,563</u>	<u>₩ 56,005,455</u>	<u>₩ 98,062,018</u>

Loans to related parties for the years ended December 31, 2018 and 2017, are as follows:

(in thousands of Korean won)

	2018				
	Beginning balance	Increase	Decrease	Exchange differences	Ending balance
<b>Subsidiaries</b>					
Chongqing Hankook Tire Co., Ltd.	₩ 231,237,450	₩ 22,940,400	₩ (74,758,090)	₩ (4,778,280)	₩ 174,641,480
Hankook Tire China Co., Ltd.	57,277,500	-	(31,674,000)	(1,189,500)	24,414,000
Jiangsu Hankook Tire Co., Ltd.	21,765,450	-	(21,765,450)	-	-
Hankook Tire Netherlands B.V.	24,383,850	-	(24,383,850)	-	-
Hankook Tire Manufacturing Tennessee LP	-	235,610,000	-	(809,000)	234,801,000
	<u>₩ 334,664,250</u>	<u>₩ 258,550,400</u>	<u>₩ (152,581,390)</u>	<u>₩ (6,776,780)</u>	<u>₩ 433,856,480</u>



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

Dividend income and contributions in cash from/to related parties for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>		2018		
		Dividend income	Payment of dividend	Contributions in cash
Holding company	Hankook Tire Worldwide Co., Ltd	₩ -	₩ 14,865,008	₩ -
Associate	Hanon Systems Co., Ltd.	33,289,920	-	-
Subsidiaries	MK Technology Corp.	6,713,400	-	-
	Hankook Tyre Australia Retail Pty., Ltd.	-	-	-
	Hankook Tires India LLP	-	-	-
	Hankook Tire Latam, S.A.	-	-	-
	Hankook Tire Latin America Distribution Center, S.A.	-	-	-
	KCG 1 Private Equity Fund Limited Partnership	-	-	19,000,000
	Model Solution Co., Ltd.	-	-	68,915,663
		<u>₩ 40,003,320</u>	<u>₩ 14,865,008</u>	<u>₩ 87,915,663</u>

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

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

The payment guarantees provided to the related parties, including overseas subsidiaries, as at December 31, 2018 and 2017, are as follows:

(in thousands of Korean won, USD, EUR, HUF, JPY, RUB, TRY, MYR)

		<b>Line of credit</b>				
		<b>2018</b>		<b>2017</b>		
<b>Currency</b>		<b>Foreign currency</b>	<b>Korean won equivalent</b>	<b>Foreign currency</b>	<b>Korean won equivalent</b>	
Hankook Tire Europe GmbH	EUR	125,000,000	₩ 159,895,000	125,000,000	₩ 159,906,250	
Hankook Tire Europe GmbH and 16 others	USD	20,000,000	22,362,000	20,000,000	21,428,000	
Hankook Tire Hungary Ltd. <sup>1</sup>	HUF	9,214,435,200	36,673,452	9,214,435,200	38,055,617	
Jiangsu Hankook Tire Co.,Ltd.	USD	-	-	-	-	
Chongqing Hankooktire Co.,LTD	USD	-	-	60,000,000	64,284,000	
PT. HANKOOKTIRE INDONESIA	USD	-	-	50,000,000	53,570,000	
Hankook Tire Singapore PTE., Ltd.	USD	335,000,000	374,563,500	370,000,000	396,418,000	
Hankook Tire Japan Corp.	JPY	-	-	300,000,000	2,847,330	
Hankook Tire Manufacturing Tennessee	USD	170,000,000	190,077,000	530,000,000	567,842,000	
Hankook Tire Malaysia SDN.BHD.	MYR	150,000	40,389	-	-	
Hankook Lastikleri A.S.	TRY	260,000	54,826	-	-	
Hankook Tire Rus LLC	RUB	825,000,000	13,266,000	450,000,000	8,370,000	

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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USD	525,000,000	587,002,500	1,030,000,000	1,103,542,000
EUR	125,000,000	159,895,000	125,000,000	159,906,250
HUF	9,214,435,200	36,673,452	9,214,435,200	38,055,617
JPY	-	-	300,000,000	2,847,330
RUB	825,000,000	13,266,000	450,000,000	8,370,000
TRY	260,000	54,826	-	-
MYR	150,000	40,389	-	-
		<u>₩ 796,932,167</u>		<u>₩ 1,312,721,197</u>

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

<b>Agreement</b>	
Guarantee provided	HUF 9,214,435,200 + interest incurred
The term of guarantee	From February 27, 2014, to September 30, 2023
Summary of agreements	To certify that the Company should sincerely carry out the investment plan according to the investment contract; otherwise, the Company should return some or whole amount of the subsidy provided by the Hungarian government.

Hankook Tire Worldwide Co., Ltd. (the surviving company) provides joint surety with the Company for the liabilities incurred before the spin-off. The outstanding balance of 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)</i>	<b>2018</b>		<b>2017</b>	
	<b>Foreign currency</b>	<b>Korean won equivalent</b>	<b>Foreign currency</b>	<b>Korean won equivalent</b>
Credit facility agreements				
USD	₩ -	₩ -	₩ 70,000	₩ 74,998,000

Compensations for key management personnel for the years ended December 31, 2018 and 2017, are as follows:

<i>(in thousands of Korean won)</i>	<b>2018</b>		<b>2017</b>	
Salaries	₩	10,563,556	₩	9,820,543
Post-employment benefits		1,860,976		1,449,112
	<u>₩</u>	<u>12,424,532</u>	<u>₩</u>	<u>11,269,655</u>

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
**December 31, 2018 and 2017**

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**40. Credit Risk**

The Company is exposed to credit risk when the following payments are not made from the counterparty by the payment date.

- Payment of trade receivables within the payment terms by customer
- Contractual cash flows of debt instruments measured at amortized cost
- Contractual cash flows of debt instruments measured at fair value through other comprehensive income

**Trade receivables**

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

**Other financial assets measured at amortized cost**

All of the other financial assets at amortized costs are considered to have low credit risk, and the loss allowance recognized during the period was, therefore, limited to 12 months expected loss. Management considers 'low credit risk' for government bonds. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

**41. Changes in accounting policy**

**41.1 Adoption of Korean IFRS 1109 *Financial Instruments***

As explained in Note 2, Company has applied Korean IFRS 1109 Financial Instruments on January 1, 2018, the date of initial application. In accordance with the transitional provisions in Korean IFRS 1109, comparative figures for prior reporting period have not been restated with the exception of certain aspects of hedge accounting. The adoption of Korean IFRS 1109 does not have a significant impact on the financial statements.

*(a) Classification and Measurement of Financial Instruments*

On the date of initial application of Korean IFRS 1109, January 1, 2018, the Company's management has assessed which business models apply to the financial assets held by the Company and has classified its financial instruments into the appropriate Korean IFRS 1109 categories. Accordingly, the Company reclassified financial assets amounting to ₩389,865 thousand classified as available-for-sale financial assets as at December 31, 2017, to financial assets at fair value through other comprehensive income. Other loans and receivables amounting to ₩1,503,784,241 thousand, financial liabilities at amortized cost amounting to ₩920,429,152 thousand and other financial liabilities amounting to ₩653,760,643 thousand were reclassified to financial assets and liabilities at amortized cost, respectively.

**Hankook Tire Co., Ltd.**  
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On the date of initial application, January 1, 2018, the financial instruments of the Company with any reclassifications noted, were as follows:

(in thousands of Korean won)	Measurement category		Carrying amount		
	Korean IFRS 1039	Korean IFRS 1109	Korean IFRS 1039	Korean IFRS 1109	Difference
<b>Current financial assets</b>					
Cash and cash equivalents	Amortized costs	Amortized costs	₩ 130,080,012	₩ 130,080,012	-
Trade receivables and other receivables	Amortized costs	Amortized costs	1,019,248,024	1,019,248,024	-
Other financial assets	Amortized costs	Amortized costs	338,192,355	338,192,355	-
Financial derivative assets	Financial assets at fair value through profit or loss	Fair value through profit or loss	4,751,634	4,751,634	-
<b>Non-current financial assets</b>					
Long-term financial instruments	Amortized costs	Amortized costs	12,000	12,000	-
Listed shares and others	Available-for-sale financial assets	Fair value through other comprehensive income	389,865	389,865	-
Other financial assets	Amortized costs	Amortized costs	16,251,850	16,251,850	-
Financial derivative assets	Financial assets at fair value through profit or loss	Fair value through profit or loss	1,045,576	1,045,576	-

*(b) Impairment of Financial Assets*

The Company has three types of financial assets subject to Korean IFRS 1109's new expected credit loss model:

- trade receivables for sales of inventory
- debt investments carried at fair value through other comprehensive income, and
- debt investments carried at amortized cost

Upon adoption of Korean IFRS 1109, accounting policies for recognition of impairment have changed. The impact of the change in impairment methodology on the Company's beginning balance of retained earnings is not significant.

*(i) Trade receivables*

The Company applies the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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(ii) Debt instruments

Debt investments at amortized cost and those at fair value through other comprehensive income are considered to be low risk, and thus the provision for impairment is determined as 12 months expected credit losses.

**41.2 Adoption of Korean IFRS 1115 Revenue from Contracts with Customers**

As explained in Note 2, the Company has applied Korean IFRS 1115 *Revenue from contracts with customers* from January 1, 2018. In accordance with the transitional provisions in Korean IFRS 1115, comparative figures have not been restated. The impacts on the financial statements from application of Korean IFRS 1115 are as follows.

The Company identified distinct transportation services from sale of goods upon application of Korean IFRS 1115. In addition, the costs of performance have been incurred before the customer's benefits (revenue recognition) are generated, and such cost to fulfill a contract is amortized over the contract period through capitalization if it meets the capitalization criteria. The adjusted amounts in the statements of financial position as at initial application are not significant.

The Company has reclassified other non-current liabilities of ₩5,882,328 thousand as contract liabilities in the presentation of line items in the statements of financial position to reflect the terminology of Korean IFRS 1115.

Financial statement line items affected by the adoption of the new rules in the current period are as follows:

**Statement of financial position**

<i>(in thousands of Korean won)</i>	<b>Reported amount</b>	<b>Adjustments</b>	<b>Amount before application of Korean IFRS 1115</b>
<b>Total assets</b>	₩ 6,284,507,359	₩ -	₩ 6,284,507,359
Current liabilities	1,160,191,241	-	1,160,191,241
Other current liabilities (excluding contract liabilities)	25,195,810	5,882,328	31,078,138
Contract liabilities	5,882,328	(5,882,328)	-
Current liabilities without financial effects	1,129,113,103	-	1,129,113,103
Non-current liabilities	629,744,043	-	629,744,043
<b>Total liabilities</b>	1,789,935,284	-	1,789,935,284
<b>Total equity</b>	4,494,572,075	-	4,494,572,075

**Hankook Tire Co., Ltd.**  
**Notes to the Separate Financial Statements**  
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**Statements of profit or loss and Comprehensive income**

<i>(in thousands of Korean won)</i>	<b>Reported amount</b>	<b>Adjustments</b>	<b>Amount before application of Korean IFRS 1115</b>
Sales	₩ 3,193,229,260 ₩	447,120 ₩	3,193,676,380
Cost of sales	(2,295,365,671)	122,412,062	(2,172,953,609)
Selling and administrative expenses	(567,078,572)	(122,859,182)	(689,937,754)
Research and development expenses	(174,940,328)	-	(174,940,328)
Finance income	72,404,435	-	72,404,435
Finance costs	(96,922,713)	-	(96,922,713)
Other non-operating income	278,107,897	-	278,107,897
Other non-operating expense	(59,844,997)	-	(59,844,997)
Income tax expense	(105,653,555)	-	(105,653,555)
Profit for the year	243,935,756	-	243,935,756
Total comprehensive income for the year	236,509,330	-	236,509,330

There is no significant difference between the cash flows from the application of Korean IFRS 1115 and those under the previous standard.

## **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, 2018. 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, 2018, the Company's IACS has been appropriately designed and is operating effectively as of December 31, 2018, 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, 2018, and we did not review management's assessment of its IACS subsequent to December 31, 2018. 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 20, 2019



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

### Internal Control over Financial Reporting (“ICFR”) Operating Status Report by CEO & Internal Accounting Manager

English Translation of a Report Originally Issued in Korean

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

We, as the Chief Executive Officer and the Internal Accounting Manager of Hankook Tire Co., Ltd. (“the Company”), assessed operating status of the Company’s Internal Control over Financial Reporting (“ICFR”) for the year ending December 31, 2018.

Design and operation of ICFR is the responsibility of the Company’s management, including the Chief Executive Officer and the Internal Accounting Manager (collectively, “We”, “Our” or “Us”).

We evaluated whether the Company effectively designed and operated its ICFR to prevent and detect errors or frauds which may cause a misstatement in financial statements to ensure preparation and disclosure of reliable financial information.

We used the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting’ established by the Operating Committee of Internal Control over Financial Reporting in Korea (the “ICFR Committee”) as the criteria for design and operation of the Company’s ICFR. And we conducted an evaluation of ICFR based on the ‘Management Guideline for Evaluating and Reporting Effectiveness of Internal Control over Financial Reporting’ established by the ICFR Committee.

Based on our assessment, we concluded that the Company’s ICFR is designed and operated effectively as of December 31, 2018, in all material respects, in accordance with the ‘Conceptual Framework for Designing and Operating Internal Control over Financial Reporting’.

We certify that this report does not contain any untrue statement of a fact, or omit to state a fact necessary to be presented herein. We also certify that this report does not contain or present any statements which might cause material misunderstandings of the readers, and we have reviewed and verified this report with sufficient care.

January 30, 2019



Lee, Soo Il  
Chief Executive Officer



Park, Jong Ho  
Internal Accounting Manager