

**Hankook Tire Worldwide Co., Ltd.
and Subsidiaries**
Consolidated Financial Statements
December 31, 2017 and 2016

Hankook Tire Worldwide Co., Ltd. and Subsidiaries

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December 31, 2017 and 2016

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

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

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

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

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

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

Opinion

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

Other Matters

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

Seoul, Korea
March 16, 2018

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

Hankook Tire Worldwide Co., Ltd. and Subsidiaries
Consolidated Statements of Financial Position
December 31, 2017 and 2016

(in thousands of Korean won)

	Notes	2017	2016
Assets			
Current assets			
Cash and cash equivalents	4	₩ 129,484,160	₩ 225,653,912
Short-term financial assets	4	137,690,301	247,500,000
Financial assets at fair value through profit or loss	4,7	20,460,417	-
Available-for-sale financial assets	4,6	3,111,800	2,104,938
Trade receivables	4,5	141,423,760	148,091,298
Other receivables	4,5	12,517,963	58,826,475
Derivative financial assets	4,8	-	2,309,748
Other current assets	9	4,635,112	6,121,631
Inventories	31	46,038,494	44,489,406
Current tax assets		13,034	-
		<u>495,375,041</u>	<u>735,097,408</u>
Non-current assets			
Long-term financial assets	4	9,460	4,000
Financial assets designated at fair value through profit and loss	4,7	19,925,401	20,072,360
Other non-current receivables	4,5	1,589,503	740,074
Property, plant and equipment	11	158,925,090	150,772,224
Investment properties	12	26,002,872	26,699,838
Intangible assets	13	30,682,932	34,265,093
Investments in associates	10	2,487,744,939	2,094,243,538
Available-for-sale financial assets	4,6	29,698,419	30,889,109
Net defined benefit assets	16	1,906,279	4,057,715
Other non-current assets	9	650,018	650,018
		<u>2,757,134,913</u>	<u>2,362,393,969</u>
Total assets		<u>₩ 3,252,509,954</u>	<u>₩ 3,097,491,377</u>
Liabilities			
Current liabilities			
Trade payables	4	₩ 44,193,711	₩ 39,761,046
Other payables	4,14	42,852,848	31,839,829
Current tax liabilities		18,438,751	17,468,226
Other current liabilities	15	8,897,025	7,608,758
Borrowings	4,27,32	49,953,567	29,537,824
		<u>164,335,902</u>	<u>126,215,683</u>
Non-current liabilities			
Other non-current payables	4,14	-	6,888,342
Net defined benefit liabilities	16	641,207	76,930
Deferred tax liabilities	26	88,348,235	91,598,029
Other non-current liabilities	15	2,330,729	1,998,606
Other provisions	17	746,308	1,334,016
		<u>92,066,479</u>	<u>101,895,923</u>
Total liabilities		<u>256,402,381</u>	<u>228,111,606</u>
Equity			
Share capital	1,18	46,510,087	46,510,087
Other paid-in capital	19	1,285,765,464	1,285,765,464
Retained earnings	20	1,639,081,045	1,489,859,004
Other components of equity	21	(50,298,710)	(18,699,941)
Equity attributable to owners of the Parent Company		<u>2,921,057,886</u>	<u>2,803,434,614</u>
Non-controlling interest		<u>75,049,687</u>	<u>65,945,155</u>
Total equity		<u>2,996,107,573</u>	<u>2,869,379,769</u>
Total liabilities and equity		<u>₩ 3,252,509,954</u>	<u>₩ 3,097,491,375</u>

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

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

<i>(in thousands of Korean won)</i>	Notes	2017		2016	
Sales and share of profit or loss of associates accounted for using the equity method	30	₩	824,846,244	₩	690,029,633
Costs of sales	23		527,886,796		346,086,829
Gross profit			296,959,448		343,942,804
Selling and administrative expenses	22,23		97,637,515		82,365,849
Operating profit			199,321,933		261,576,955
Finance income	24		20,844,894		17,689,258
Finance costs	24		4,856,829		5,808,457
Other non-operating income	25		10,356,483		45,195,920
Other non-operating expense	25		16,566,305		16,745,231
Profit before income tax			209,100,176		301,908,445
Income tax expense	26		30,139,184		32,451,507
Profit for the year		₩	178,960,992	₩	269,456,938
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurements of net defined benefit assets	16		3,373,346		177,770
Remeasurements of net defined benefit assets of associates			3,813,603		(76,588)
<i>Items that may be subsequently reclassified to profit or loss</i>					
Changes in the fair value of available-for-sale financial assets	4,6,21		(1,106,284)		8,891
Losses on foreign operation translation	21		(144,036)		-
Share of other comprehensive income of associates	21		(30,374,730)		3,989,739
			(24,438,101)		4,099,812
Total comprehensive income for the year		₩	154,522,891	₩	273,556,750
Profit is attributable to:					
Owners of the Parent Company			169,543,618		261,535,602
Non-controlling interest			9,417,373		7,921,337
Total comprehensive income for the year is attributable to:					
Owners of the Parent Company			145,131,797		265,439,684
Non-controlling interest			9,391,094		8,117,067
Earnings per share					
Basic and diluted earnings per share	33	₩	1,849	₩	2,852

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

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

	Notes	Attributable to owners of the Parent Company							Non-controlling interests	Total
		Share capital	Other paid-in capital	Retained earnings	Other components of equity					
					Changes in the fair value of available-for-sale financial assets	Losses on overseas operation translation	Share of other comprehensive income of associates			
<i>(in thousands of Korean won)</i>		₩	₩	₩	₩	₩	₩	₩	₩	
Balance at January 1, 2016		46,510,087	1,286,905,972	1,255,925,338	1,512,351	-	(24,209,784)	-	2,566,643,964	
Transactions with owners										
Annual dividends	20	-	-	(27,508,525)	-	-	-	-	(27,508,525)	
Business combination		-	-	-	-	-	-	65,294,631	65,294,631	
Equity transactions within consolidated group		-	(1,140,507)	-	-	-	-	(7,466,543)	(8,607,050)	
Total transactions with owners		-	(1,140,507)	(27,508,525)	-	-	-	57,828,088	29,179,056	
Total comprehensive income for the year										
Profit for the year		-	-	261,535,602	-	-	-	7,921,337	269,456,939	
Remeasurements of net defined benefit assets	16	-	-	(16,823)	-	-	-	194,593	177,770	
Remeasurements of net defined benefit assets of associates		-	-	(76,588)	-	-	-	-	(76,588)	
Changes in the fair value of available-for-sale financial assets	4,6,21	-	-	-	7,754	-	-	1,137	8,891	
Share of other comprehensive income of associates	10	-	-	-	-	-	3,989,739	-	3,989,739	
		-	-	261,442,191	7,754	-	3,989,739	8,117,067	273,556,751	
Balance at December 31, 2016		₩ 46,510,087	₩ 1,285,765,465	₩ 1,489,859,004	₩ 1,520,105	₩ -	₩ (20,220,045)	₩ 65,945,155	₩ 2,869,379,771	
Balance at January 1, 2017		₩ 46,510,087	₩ 1,285,765,465	₩ 1,489,859,004	₩ 1,520,105	₩ -	₩ (20,220,045)	₩ 65,945,155	₩ 2,869,379,771	
Transactions with owners										
Annual dividends	20	-	-	(27,508,525)	-	-	-	(286,562)	(27,795,087)	
Total transactions with owners		-	-	(27,508,525)	-	-	-	(286,562)	(27,795,087)	
Total comprehensive income for the year										
Profit for the year		-	-	169,543,618	-	-	-	9,417,373	178,960,991	
Remeasurements of net defined benefit assets	16	-	-	3,373,346	-	-	-	-	3,373,346	
Remeasurements of net defined benefit assets of associates		-	-	3,813,603	-	-	-	-	3,813,603	
Changes in the fair value of available-for-sale financial assets	4,6,21	-	-	-	(1,116,173)	-	-	9,890	(1,106,283)	
Loss on foreign operation translation	21	-	-	-	-	(107,867)	-	(36,169)	(144,036)	
Share of other comprehensive income of associates	10	-	-	-	-	-	(30,374,730)	-	(30,374,730)	
		-	-	176,730,567	(1,116,173)	(107,867)	(30,374,730)	9,391,094	154,522,891	
Balance at December 31, 2017		₩ 46,510,087	₩ 1,285,765,465	₩ 1,639,081,046	₩ 403,932	₩ (107,867)	₩ (50,594,775)	₩ 75,049,687	₩ 2,996,107,575	

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

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

<i>(in thousands of Korean won)</i>	Notes	2017	2016
Cash flows from operating activities			
Cash generated from operations			
Profit for the year		₩ 178,960,991	₩ 269,456,939
Adjustments	27	(65,863,414)	(168,646,444)
Changes in operating assets and liabilities	27	<u>11,885,918</u>	<u>(13,508,766)</u>
		124,983,495	87,301,729
Interest received		10,957,137	8,610,380
Interest paid		(649,061)	(356,656)
Dividend received		12,217,788	12,476,793
Income taxes paid		<u>(24,625,932)</u>	<u>(22,196,650)</u>
Net cash inflow from operating activities		<u>122,883,428</u>	<u>85,835,596</u>
Cash flows from investing activities			
Payments for short-term financial assets		(535,698,718)	(354,500,000)
Proceeds from sale of short-term financial assets		645,508,417	426,107,259
Payments for long-term financial assets		(2,275)	-
Proceeds from sale of long-term financial assets		-	4,000
Increase in short-term loans		(185,900)	(56,996,920)
Repayments of short-term loans		52,599,670	92,220,274
Payments for financial assets at fair value through profit or loss	7	(103,000,000)	(20,000,000)
Proceeds from sale of financial assets at fair value through profit or loss	7	83,401,556	-
Payments for available-for-sale financial assets	6	(7,996,437)	(10,180,000)
Proceeds from sale of available-for-sale financial assets	6	2,129,703	2,467,094
Payments for property, plant and equipment	11	(23,170,177)	(10,968,488)
Proceeds from sale of property, plant and equipment	11	74,379	-
Payments for intangible assets	13	(2,124,259)	(1,160,591)
Proceeds from sale of intangible assets	13	22,727	115,909
Payments for investments in associates	10	(324,112,451)	-
Cash inflow from derivative transactions	8	4,237,560	-
Cash outflow from derivative transactions	8	-	(5,145,883)
Increase in cash due to change in the scope of consolidation		423,159	12,909,630
Cash outflow from business combination	34	<u>(4,960,154)</u>	<u>-</u>
Net cash inflow (outflow) from investing activities		<u>(212,853,199)</u>	<u>74,872,284</u>
Cash flows from financing activities			
Proceeds from short-term borrowings	27,32	21,872,461	-
Repayments of short-term borrowings	27,32	(118,540)	(19,935,275)
Dividends paid	20	(27,508,525)	(27,508,525)
Payments for non-controlling interests		-	(8,607,050)
Dividends paid to non-controlling interests		<u>(286,562)</u>	<u>(4,410,921)</u>
Net cash outflow from financing activities		<u>(6,041,166)</u>	<u>(60,461,771)</u>
Net increase (decrease) in cash and cash equivalents		<u>(96,010,937)</u>	<u>100,246,109</u>
Cash and cash equivalents at the beginning of the financial year		225,653,912	124,995,571
Effects of exchange rate changes on cash and cash equivalents		(158,815)	412,232
Cash and cash equivalents at the end of the year		<u>₩ 129,484,160</u>	<u>₩ 225,653,912</u>

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

HANKOOK TIRE WORLDWIDE CO., LTD. and Subsidiaries
Notes to the Consolidated Financial Statements
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1. General Information

1.1 The Group

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

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

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

1.2 Consolidated Subsidiaries and Change in the Scope in Consolidation

Details of the consolidated subsidiaries as at the end of the reporting periods, are as follows:

Name of entity	Ownership interest held by the group (%)		Location	Main business
	2017	2016		
Atlas BX Co., Ltd	74.9	74.9	Korea	Manufacturing and sales of storage batteries and dry cells
Atlas BX Motorsports Co., Ltd. ¹	74.9	74.9	Korea	Management of racing team and agency of advertisement
Atlasbx America Corporation ²	74.9	-	Korea	Manufacturing and sales of storage batteries and dry cells
HK Automotive Co., Ltd. ³	100.0	-	Korea	Repairing automobiles and sales of parts
Flying Motors Co., Ltd. ³	100.0	-	Korea	Repairing automobiles and sales of parts
HK Motors Co., Ltd. ⁴	100.0	-	Korea	Repairing automobiles and sales of parts

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

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

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

⁴ HK Automotive Co., Ltd. acquired 100% shares of HK Motors Co., Ltd. from HANKOOK TIRE CO., LTD., an associate of the Group, and was classified as subsidiaries during 2017.

Summarized financial information for consolidated subsidiaries as at the end of the reporting periods, is as follows:

(in thousands of Korean won)

	2017					
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
Atlas BX Co., Ltd	W 407,234,356	W 143,497,583	W 263,736,773	W 629,506,608	W 43,220,525	W 44,925,453
Atlas BX Motorsports Co., Ltd.	345,277	190,626	154,651	1,622,048	(121,957)	(121,958)
Atlasbx America Corporation	17,262,185	15,452,204	1,809,981	18,518,312	(351,383)	(495,419)
HK Automotive Co., Ltd.	9,955,137	72,022	9,883,115	537,899	(116,429)	(116,885)
Flying Motors Co., Ltd.	1,093,280	147,340	945,940	917,813	(253,774)	(271,279)
HK Motors Co., Ltd.	4,665,685	381,456	4,284,229	4,824,630	152,018	129,657

(in thousands of Korean won)

	2017					
	Assets	Liabilities	Equity	Sales	Profit (loss) for the year	Total comprehensive income (loss)
Atlas BX Co., Ltd	W 333,714,140	W 113,761,652	W 219,952,488	W 554,361,989	W 50,687,988	W 51,432,952
Atlas BX Motorsports Co., Ltd.	422,157	145,548	276,609	1,202,795	20,716	20,716

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2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated 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 Group 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 consolidated 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 Group's financial position, financial performance or cash flows, is not presented in the accompanying consolidated financial statements.

The consolidated financial statements of the Group 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 Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

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

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

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows (Note 27).

- Amendments to Korean IFRS 1012 *Income Tax*

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

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

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate

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is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

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

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

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

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

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

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

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

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

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

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

- Enactment of Korean IFRS 1116 *Leases*

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

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

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

Lessee accounting

A lessee shall apply this standard to its leases either:

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

The Group has not yet elected the application method.

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

Lessor accounting

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

- Enactment of Korean IFRS 1109 *Financial Instruments*

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

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

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

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

In applying Korean IFRS 1109, the Group is analyzing its impact on the consolidated financial statements. The following areas are likely to be affected in general.

(a) Classification and Measurement of Financial Assets

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

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

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

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

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

As at December 31, 2017, the Group owns loans and receivables of ₩ 422,715,147 thousand, financial assets

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available-for-sales of ₩ 32,810,219 thousand and financial assets at fair value through profit or loss of ₩ 40,385,818 thousand.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2017 the Group measured loans and receivables of ₩ 422,715,147 thousand at amortized costs.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Group can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at December 31, 2017, the Group holds equity instruments of ₩ 1,123,389 thousand classified as financial assets available-for-sale and recycled no unrealized gain or loss from the equity instruments to profit or loss.

According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As at December 2017, the Group holds debt instruments classified as financial assets at fair value through profit or loss that amount to ₩ 40,385,818 thousand.

(b) Classification and Measurement of Financial Liabilities

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

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

(c) Impairment: Financial Assets and Contract Assets

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

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

Stage ¹	Loss allowance
1 No significant increase in credit risk after initial recognition ²	12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date)

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2	Significant increase in credit risk after initial recognition	Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument)
3	Credit-impaired	

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

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

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

As at December 31, 2017, the Group owns debt investment carried at amortized cost of ₩ 422,715,147 thousand (loans and receivables), debt investments carried at fair value through other comprehensive income, which classified as financial assets available-for-sales, of ₩ 31,686,830 thousand. And, the Group recognized loss allowance of ₩ 5,727 thousand for these assets.

(d) Hedge Accounting

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

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

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

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

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- Korean IFRS 1115 *Revenue from Contracts with Customers*

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

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

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

With the implementation of Korean IFRS 1115, the Group is organizing internal control process or modifying accounting system and analyzing its impact on the consolidated financial statements.

(i) Licensing: a right to access intelligent property

The Group enters into contracts that Hankook Tire Co., Ltd. for use of the brand of Hankook Tire for license periods and receives a license fee. During 2017, the Group recognized ₩ 48,735,137 thousand of revenue generated from the licenses of the brand that accounts for 5.9% of total revenues of the Group.

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

(ii) Identify performance obligation

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

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(iii) Variable consideration

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

2.3 Consolidation

The Group has prepared the consolidated financial statements in accordance with Korean IFRS 1110 *Consolidated Financial Statements*.

(a) Subsidiaries

Subsidiaries are all entities over which the Parent Company has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. The consideration transferred is measured at the fair values of the assets transferred, and identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. All other non-controlling interests are measured at fair values, unless otherwise required by other standards. Acquisition-related costs are expensed as incurred.

The excess of consideration transferred, amount of any non-controlling interest in the acquired entity and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the profit or loss as a bargain purchase.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognized at cost. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. If there is an objective evidence of impairment for the investment in the associate, the Group recognizes the difference between the recoverable amount of the associate and its book amount as impairment loss.

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(c) Joint Arrangements

A joint arrangement, wherein two or more parties have joint control, is classified as either a joint operation or a joint venture. A joint operator recognizes its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5 Financial Assets

(a) Classification and measurement

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

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

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. And, loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

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

(b) Impairment

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

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

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

(c) Derecognition

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

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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 Group or the counterparty.

2.6 Derivative Instruments

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

2.7 Inventories

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Inventories are stated at the lower of cost and net realizable value. Cost is determined using the moving-weighted average method.

2.8 Property, Plant and Equipment

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

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

	Useful life
Buildings	10 - 40 years
Structures	10 - 40
Machinery	10
Vehicles	4 - 5
Equipment	4 - 5
Tools, furniture and fixtures	5 - 10

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

2.9 Intangible Assets

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

Membership rights and goodwill that have an indefinite useful life are not subject to amortization because there is no foreseeable limit to the period over which the assets are expected to be utilized. The Group amortizes intangible assets with a limited useful life using the straight-line method over the following periods:

	Useful life
Industrial property rights	5 - 10 years
Other intangible assets	4 - 10

2.10 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 Group depreciates investment properties, except for land, using the straight-line method over their useful lives for 20 - 40 years.

2.11 Impairment of Non-financial Assets

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

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

2.12 Financial Liabilities

(a) Classification and measurement

The Group'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 consolidated are also classified as held for trading.

The Group 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.

(b) Derecognition

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

2.13 Current and Deferred Tax

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

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

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Group 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 consolidated 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

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temporary differences and losses.

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

2.14 Employee Benefits

(a) Post-employment benefits

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

For defined contribution plans, the Group pays contribution to publicly or privately administered pension insurance plans on mandatory, contractual or voluntary basis. The Group 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 Group 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 Group 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.

2.15 Revenue Recognition

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

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

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customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

The Group manufactures and sells storage batteries and dry cells. Sales related to storage batteries business are recognized when control of the products has transferred, being when the products are delivered to the wholesaler.

(b) Rendering of services

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

(c) Royalty income

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

(d) Interest income

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

(e) Dividend income

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

(f) Rental income

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

2.16 Provisions

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

2.17 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 Management Committee that makes strategic decisions.

2.18 Approval of Issuance of the Financial Statements

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

2.19 Reclassification of Prior Year Financial Statement

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

3. Critical Accounting Estimates and Assumptions

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

(a) Income taxes

The Group'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 26).

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group is liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Group'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 Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period (Note 4).

(c) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 16).

4. Financial Risk Management

(a) Capital Management

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

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

<i>(in thousands of Korean won)</i>	2017		2016	
Total liabilities	₩	256,402,381	₩	228,111,606
Total equity		<u>2,996,107,573</u>		<u>2,869,379,769</u>
Debt ratio		<u>8.6%</u>		<u>7.9%</u>

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

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

<i>(in thousands of Korean won)</i>		2017		2016	
		Book amount		Book amount	
Financial assets:					
Derivatives designated as a hedging instrument	Derivative financial assets	₩	-	₩	2,309,748
AFS financial assets	AFS financial assets		32,810,219		32,994,046
Financial assets designated at fair value through profit and loss	Financial assets designated at fair value through profit and loss		40,385,818		20,072,360
Loans and receivables	Cash and cash equivalents		129,484,160		225,653,912
	Short-term financial assets		137,690,301		247,500,000
	Trade receivables		141,423,760		148,091,298
	Other receivables		12,517,963		58,826,475
	Long-term financial assets		9,460		4,000
	Other non-current receivables		1,589,503		740,074
		₩	<u>495,911,184</u>	₩	<u>736,191,913</u>

<i>(in thousands of Korean won)</i>		2017		2016	
		Book amount		Book amount	
Financial liabilities:					
Financial liabilities at amortized cost	Trade payables	₩	44,193,711	₩	39,761,046
	Other payables		42,852,848		31,839,829
	Other non-current payables		-		6,888,342
Other financial liabilities ¹	Borrowings		49,953,567		29,537,824
		₩	<u>137,000,126</u>	₩	<u>108,027,041</u>

¹ Financial liabilities relate to transfer do not meet the derecognition criteria that is not subject to financial liabilities by categories.

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

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<i>(in thousands of Korean won)</i>	2017	2016
Derivatives designated as a hedging instrument		
Gains on foreign exchange forward contracts valuation	₩ -	₩ 2,309,748
Gains (losses) on foreign exchange forward contracts transaction	1,927,812	(2,468,315)
AFS financial assets		
Gains (losses) on valuation (other comprehensive income (loss))	(1,106,284)	8,891
Gains on disposal (profit or loss)	4,886,840	2,467,093
Impairment/reversal (profit or loss)	-	364
Dividend income	11,823	6,983
Financial assets at Fair Value through Profit or Loss		
Gains on valuation/disposal (profit or loss)	715,014	137,619
Loans and receivables		
Interest income	9,295,673	9,884,689
Losses on foreign currency transaction	(8,502,928)	(3,749,208)
Gains (losses) on foreign currency translation	(2,294,793)	2,305,553
Losses on disposal of trade receivables	-	(44)
Reversal of provision for impairment loss	35,537	501
Financial liabilities measured at amortized cost		
Gains on foreign currency transaction	1,095,693	3,866,008
Gains (losses) on foreign currency translation	123,080	(426,240)
Other financial liabilities		
Interest expense	(558,793)	(333,193)
Gains on foreign currency transaction	1,527,378	831,818
Gains (losses) on foreign currency translation	1,456,718	(1,573,174)
Total	<u>₩ 8,612,770</u>	<u>₩ 13,269,093</u>

(d) Financial risk management

1) Purpose of financial risk management

The Group 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 Group manages operations, organizes the approach to financial market and controls the financial risks related to operations of the Group through internal risk reports which analyze the scope and degree of each risk factor.

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

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

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

2) Market risk

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

a) Foreign currency risk management

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

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

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

<i>(in thousands of Korean won)</i>		<u>2017</u>		<u>2016</u>
USD	₩	851,980	₩	3,299,378
CNY		-		429,217
EUR		319,040		1,031,843
Others		590,308		988,976

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

<i>(in thousands of Korean won, and thousands of CNY)</i>	<u>2016</u>						
	<u>Contract date</u>	<u>Maturity date</u>	<u>Contract sum</u>	<u>Contract rate</u>	<u>Strike amount</u>	<u>Fair value</u>	<u>Gain (loss) on valuation</u>
Citi Bank	2016.05.24	2017.05.24	CNY 316,000	176.30	₩ 55,710,800	₩ 53,401,052	₩ 2,309,748

b) Interest rate risk

Interest rate risk is defined as the risk that the interest income or expenses arising from the Group'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 Group monitors a fluctuation of domestic and foreign interest rates and establishes alternatives.

c) Other price risks

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

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

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period.

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

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

3) Credit risk management

Credit risk refers to risk of financial losses to the Group when the counterpart defaults on the obligations of the contracts. The Group 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 Group 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 Group regularly monitors customers' credit ratings, checks on the credit risk exposure and readjusts deposit or aggregate amount of transactions. The aggregate risks are allocated to total portfolio of approved customers for diversification effect that are reviewed and approved annually by Foreign Exchange Risk Management Committee.

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

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

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

4) Liquidity risk management

The Group has established an appropriate liquidity risk management framework for the management of the Group'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 Group manages liquidity risk by maintaining adequate reserves and credit facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

a) Details of liquidity risk

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

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(in thousands of Korean won)

		2017					
		Contractual	Residual amount				
Book amount		cash flows	Within a year	1-2 years	2-5 years	After 5 years	
Trade payables	₩ 44,193,711	₩ 44,193,711	₩ 44,193,711	₩ -	₩ -	₩ -	
Other payables	42,852,848	42,852,848	42,852,848	-	-	-	
Borrowings	49,953,567	49,953,567	49,953,567	-	-	-	
	₩ 137,000,126	₩ 137,000,126	₩ 137,000,126	₩ -	₩ -	₩ -	

(in thousands of Korean won)

		2016					
		Contractual	Residual amount				
Book amount		cash flows	Within a year	1-2 years	2-5 years	After 5 years	
Trade payables	₩ 39,761,046	₩ 39,761,046	₩ 39,761,046	₩ -	₩ -	₩ -	
Other payables	31,839,829	31,839,829	31,839,829	-	-	-	
Borrowings	29,537,824	29,537,824	29,537,824	-	-	-	
Other non-current payables	6,888,342	6,888,342	-	6,888,342	-	-	
Financial guarantee contracts	-	64,794,480	64,794,480	-	-	-	
	₩ 108,027,041	₩ 172,821,521	₩ 165,933,179	₩ 6,888,342	₩ -	₩ -	

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

(5) Fair value of financial instruments

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

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets ¹				
Available-for-sale financial assets	₩ 32,578,640	₩ 32,578,640	₩ 32,762,467	₩ 32,762,467
Financial instruments at fair value through profit or loss	40,385,818	40,385,818	20,072,360	20,072,360
Derivative financial assets	-	-	2,309,748	2,309,748

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

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

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

<i>(in thousands of Korean won)</i>		2017		2016	
AFS financial assets	Unlisted stock ¹	₩	231,579	₩	231,579

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

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

c) Valuation methods and assumptions applied in fair value measurement

Financial instruments that are measured subsequent to initial recognition at fair value are categorized by the fair value hierarchy levels, and the defined levels are as follows:

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

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

<i>(in thousands of Korean won)</i>		2017			
		Level 1	Level 2	Level 3	Total
AFS financial assets					
Marketable equity instruments	₩	891,810	₩	-	₩ 891,810
Nonmarketable debt instruments		-	31,686,830	-	31,686,830
Financial assets at fair value through profit or loss					
Derivative linked securities		-	40,385,818	-	40,385,818
	₩	891,810	₩ 72,072,648	₩	₩ 72,964,458

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	2016			
	Level 1	Level 2	Level 3	Total
AFS financial assets				
Marketable equity instruments	₩ 941,540	₩ -	₩ -	₩ 941,540
Nonmarketable debt instruments	-	31,820,927	-	31,820,927
Financial assets at fair value through profit or loss				
Derivative linked securities	-	20,072,360	-	20,072,360
Derivative instruments				
Currency forward assets	-	2,309,748	-	2,309,748
	₩ 941,540	₩ 54,203,035	₩ -	₩ 55,144,575

6) Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

The Group'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.

7) Valuation Techniques and the Inputs

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

(In thousands of Korean won)

	2017			
	Fair value	Level	Valuation techniques	Inputs
Available-for-sale financial assets				
Government bonds	₩22,258,530	2	Discounted cash flows model	Credit risk adjusted discount rate
Hybrid capital securities (Consol bond)	9,428,300	2	Discounted cash flows model	Credit risk adjusted discount rate
Financial assets at fair value through profit or loss				
Derivative linked securities	40,385,818	2	Option pricing model	Underlying assets price, Credit risk adjusted discount rate, Volatility of underlying assets

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

5. Trade and Other Receivables

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

(in thousands of Korean won)

	2017		
	Gross amount	Less: Provision for impairment	Net amount
Current			
Trade receivables	₩ 141,429,487	₩ (5,727)	₩ 141,423,760
Other receivables			
Non-trade receivables	11,012,921	-	11,012,921
Accrued income	1,499,398	-	1,499,398
Short-term loans	5,644	-	5,644
	₩ 12,517,963	₩ -	₩ 12,517,963
Non-current			
Long-term loans	₩ -	₩ -	₩ -
Leasehold deposits provided	1,589,503	-	1,589,503
	₩ 1,589,503	₩ -	₩ 1,589,503

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	2016		
	Gross amount	Less: Provision for impairment	Net amount
Current			
Trade receivables	₩ 148,132,562	₩ (41,264)	₩ 148,091,298
Other receivables			
Non-trade receivables	672,485	-	672,485
Accrued income	3,395,341	-	3,395,341
Short-term loans	54,758,649	-	54,758,649
	<u>₩ 58,826,475</u>	<u>₩ -</u>	<u>₩ 58,826,475</u>
Non-current			
Long-term loans	₩ 6,366	₩ -	₩ 6,366
Leasehold deposits provided	733,708	-	733,708
	<u>₩ 740,074</u>	<u>₩ -</u>	<u>₩ 740,074</u>

The aging analysis of trade and other receivables as at the end of the reporting periods, is as follows:

(in thousands of Korean won)

	2017					Total
	Within maturity	Up to 3 months	3 to 6 months	6 to 12 months	Over 1 year	
Receivables not past due :						
Trade receivables	₩ 130,611,258	₩ -	₩ -	₩ -	₩ -	₩ 130,611,258
Other receivables	14,107,466	-	-	-	-	14,107,466
	<u>₩ 144,718,724</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 144,718,724</u>
Past due but not impaired :						
Trade receivables	₩ -	₩ 10,647,146	₩ 65,793	₩ 31,317	₩ 73,973	₩ 10,818,229
Other receivables	-	-	-	-	-	-
	<u>₩ -</u>	<u>₩ 10,647,146</u>	<u>₩ 65,793</u>	<u>₩ 31,317</u>	<u>₩ 73,973</u>	<u>₩ 10,818,229</u>
Impaired :						
Trade receivables	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
Other receivables	-	-	-	-	-	-
	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>
	<u>₩ 144,718,724</u>	<u>₩ 10,647,146</u>	<u>₩ 65,793</u>	<u>₩ 31,317</u>	<u>₩ 73,973</u>	<u>₩ 155,536,953</u>

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	2016					Total
	Up to 3 months	Up to 3 months	3 to 6 months	6 to 12 months	Over 1 year	
Receivables not past due :						
Trade receivables	₩ 120,988,699	₩ -	₩ -	₩ -	₩ -	₩ 120,988,699
Other receivables	59,566,549	-	-	-	-	59,566,549
	<u>₩ 180,555,248</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 180,555,248</u>
Past due but not impaired :						
Trade receivables	₩ -	₩ 24,469,046	₩ 704,239	₩ 1,161,614	₩ 767,700	₩ 27,102,599
Other receivables	-	-	-	-	-	-
	<u>₩ -</u>	<u>₩ 24,469,046</u>	<u>₩ 704,239</u>	<u>₩ 1,161,614</u>	<u>₩ 767,700</u>	<u>₩ 27,102,599</u>
Impaired :						
Trade receivables	₩ -	₩ 926	₩ -	₩ 18,777	₩ 21,561	₩ 41,264
Other receivables	-	-	-	-	-	-
	<u>₩ -</u>	<u>₩ 926</u>	<u>₩ -</u>	<u>₩ 18,777</u>	<u>₩ 21,561</u>	<u>₩ 41,264</u>
	<u>₩ 180,555,248</u>	<u>₩ 24,469,972</u>	<u>₩ 704,239</u>	<u>₩ 1,180,391</u>	<u>₩ 789,261</u>	<u>₩ 207,699,111</u>

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

(in thousands of Korean won)	2017	2016
Beginning balance	₩ 41,264	₩ -
Reversal of impairment loss	(35,537)	(501)
Change in the scope of consolidation	-	41,765
Ending balance	<u>₩ 5,727</u>	<u>₩ 41,264</u>

The Group considers a change of credit grade about trade receivables from starting date for granting credit to the statements of financial position date to judge recoverability of trade receivables and others. Since the Group has many customers that are not interconnected with each other, concentration risk in trade receivables is limited.

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6. AFS Financial Assets

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

<i>(in thousands of Korean won)</i>	2017		2016	
Equity instruments				
Marketable equity instruments	₩	891,810	₩	941,540
Nonmarketable equity instruments		231,579		231,579
		<u>1,123,389</u>		<u>1,173,119</u>
Debt instruments				
Government bonds		22,258,530		22,104,427
Hybrid capital securities(Consol bond)		9,428,300		9,716,500
		<u>31,686,830</u>		<u>31,820,927</u>
	₩	<u>32,810,219</u>	₩	<u>32,994,046</u>

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

<i>(in thousands of Korean won)</i>	2017					
	Beginning balance	Acquisition	Valuation	Disposals	The change in the scope of consolidation	Ending balance
Marketable equity instruments	₩ 941,540	₩ 4,884,180	₩ (49,730)	₩(4,884,180)	₩ -	₩ 891,810
Nonmarketable equity instruments	231,579	-	-	-	-	231,579
	<u>₩ 1,173,119</u>	<u>₩ 4,884,180</u>	<u>₩ (49,730)</u>	<u>₩(4,884,180)</u>	<u>₩ -</u>	<u>₩ 1,123,389</u>

<i>(in thousands of Korean won)</i>	2016					
	Beginning balance	Valuation	Reversal of impairment	Disposals	The change in the scope of consolidation	Ending balance
Marketable equity instruments	₩ 313,715	₩ 398,657	₩ 364	₩ -	₩ 228,804	₩ 941,540
Nonmarketable equity instruments	220,081	-	-	(2)	11,500	231,579
	<u>₩ 533,796</u>	<u>₩ 398,657</u>	<u>₩ 364</u>	<u>₩ (2)</u>	<u>₩ 240,304</u>	<u>₩ 1,173,119</u>

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

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	2017				
	Beginning balance	Acquisition	Valuation	Disposals	Ending balance
Government bonds	₩ 22,104,427	₩ 3,112,257	₩ (853,217)	₩ (2,104,937)	₩ 22,258,530
Hybrid capital securities (Consol bond)	9,716,500	-	(288,200)	-	9,428,300
	<u>₩ 31,820,927</u>	<u>₩ 3,112,257</u>	<u>₩ (1,141,417)</u>	<u>₩ (2,104,937)</u>	<u>₩ 31,686,830</u>

(in thousands of Korean won)

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

7. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss of December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

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

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

(in thousands of Korean won)

	2017				
	Beginning balance	Acquisition	Disposals	Valuation	Ending balance
Derivative-linked securities	₩ 20,072,360	₩ 103,000,000	₩ (83,072,360)	₩ 385,818	₩ 40,385,818

(in thousands of Korean won)

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

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Changes in the fair value through profit or loss at fair value through profit or loss are presented in the statement of profit or loss under "finance income and finance costs" (Note 24).

8. Derivative Financial Instruments

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

(in thousands of Korean won)

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

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

(in thousands of Korean won)

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

9. Other Assets

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

(in thousands of Korean won)

	2017		2016	
	Current	Non-current	Current	Non-current
Advance payments	₩ 927,910	₩ -	₩ 3,009,319	₩ -
Prepaid expenses	510,268	-	426,084	-
Prepaid value added tax	3,196,934	-	2,686,228	-
Others	-	650,018	-	650,018
	₩ 4,635,112	₩ 650,018	₩ 6,121,631	₩ 650,018

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10. Investments in Subsidiaries and Associates

Details of the Group's associates as at the end of the reporting periods, are as follows:

Name of entity		Percentage of ownership (%)		Location	Main business
		2017	2016		
Hankook Tire Co., Ltd. ¹	Associate	30.0%	25.2%	Korea	Manufacturing and sales of the tires, tubes and alloy wheels
EmFrontier, Inc.	Associate	40.0%	40.0%	Korea	Managing e-business and providing service of integrated system

¹ In December 2017, as the Group acquired 5,987,994 shares (acquisition price : ₩ 324,112,451 thousand) from its related party, Yang Rai Cho, the effective percentage of ownership was changed to 30.0%. At the end of the reporting period, the Group has not been able to complete the initial accounting for the acquisition transaction because the Group is in the process of evaluating the fair value of identifiable assets held by Hankook Tire Co., Ltd. The fair value of the identifiable assets of the acquired entity is the provisionally determined value, which will be adjusted based on the final valuation result.

Details of the Group's investments in associates as at the end of the reporting the years, are as follows:

	2017		
	Number of shares	Acquisition cost	Book amount
Hankook Tire Co., Ltd.	37,162,521	₩ 1,951,768,201	₩ 2,478,673,937
EmFrontier, Inc.	1,333,334	2,778,102	9,071,002
		₩ 1,954,546,303	₩ 2,487,744,939
	2016		
	Number of shares	Acquisition cost	Book amount
Hankook Tire Co., Ltd.	31,174,527	₩ 1,627,655,750	₩ 2,085,009,481
EmFrontier, Inc.	1,333,334	2,778,102	9,234,057
		₩ 1,630,433,852	₩ 2,094,243,538

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Details of share of profit or loss of associates accounted for using the equity method for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

		2017						
		Share of profit or loss of associates accounted for using the equity method			Dividend	Retained earnings	Others	Ending balance
	Beginning balance	Acquisition						
Hankook Tire Co., Ltd.	W 2,085,009,481	W 324,112,451	W 117,320,218	W (12,469,811)	W 4,754,530	W (40,052,932)	W 2,478,673,937	
EmFrontier, Inc.	9,234,057	-	(358,117)	-	209,669	(14,607)	9,071,002	
	<u>W 2,094,243,538</u>	<u>W 324,112,451</u>	<u>W 116,962,101</u>	<u>W (12,469,811)</u>	<u>W 4,964,199</u>	<u>W (40,067,539)</u>	<u>W 2,487,744,939</u>	

(in thousands of Korean won)

		2016						
		Share of profit or loss of associates accounted for using the equity method			Retained earnings	Others	Disposal	Ending balance
	Beginning balance		Dividend					
Hankook Tire Co., Ltd.	W 1,913,030,518	W 186,531,683	W (12,469,811)	W (1,709,149)	W (373,760)	W -	W 2,085,009,481	
EmFrontier, Inc.	7,992,153	1,292,378	-	(54,582)	4,108	-	9,234,057	
Atlas BX Co., Ltd ¹	137,744,281	4,793,446	(1,994,080)	(13,327)	2,591	(140,532,911)	-	
	<u>W 2,058,766,952</u>	<u>W 192,617,507</u>	<u>W (14,463,891)</u>	<u>W (1,777,058)</u>	<u>W (367,061)</u>	<u>W (140,532,911)</u>	<u>W 2,094,243,538</u>	

¹ Gains on disposal amounting to ₩ 2,769,690 thousand related to reclassification of Atlas BX Co., Ltd. to subsidiaries are recognized in profit or loss.

The tables below provide summarized financial information and received dividends for those associates that are material to the Group.

(in thousands of Korean won)

		2017	
		Hankook Tire Co., Ltd.	EmFrontier, Inc.
Assets	W	9,518,786,151	42,078,231
Liabilities		3,145,279,906	19,400,570
Equity		6,373,506,245	22,677,661
Sales		6,812,857,982	65,354,118
Profit for the year		606,456,841	(888,332)
Total comprehensive income		465,689,738	(383,494)

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Dividend received 12,469,811 -

(in thousands of Korean won)

	2016			
	Hankook Tire Co., Ltd.		EmFrontier, Inc.	
Assets	₩	9,621,973,239	₩	66,665,155
Liabilities		3,660,493,919		43,579,816
Equity		5,961,479,320		23,085,339
Sales		6,621,762,292		109,432,871
Profit for the year		879,090,216		3,229,313
Total comprehensive income		870,233,474		3,103,851
Dividend received		12,469,811		-

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

(in thousands of Korean won)

	2017		2016	
Hankook Tire Co., Ltd.	₩	2,029,073,647	₩	1,808,122,566

11. Property, Plant and Equipment

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

(in thousands of Korean won)

	2017			
	Cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	₩ 42,424,322	₩ -	₩ -	₩ 42,424,322
Buildings	81,568,638	(38,231,826)	-	43,336,812
Structures	5,958,015	(4,158,343)	-	1,799,672
Machinery and equipment	142,994,393	(89,627,612)	-	53,366,781
Vehicles	1,473,616	(1,139,175)	-	334,441
Supplies	8,435,678	(6,839,468)	-	1,596,210
Tools, furniture and fixtures	28,369,300	(19,617,304)	-	8,751,996
Construction in progress	7,616,744	-	(301,888)	7,314,856
	₩ 318,840,706	₩ (159,613,728)	₩ (301,888)	₩ 158,925,090

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(in thousands of Korean won)

	2016			
	Cost	Accumulated depreciation	Accumulated impairment loss	Book amount
Land	W 42,424,322	W -	W -	W 42,424,322
Buildings	79,684,296	(35,355,030)	-	44,329,266
Structures	5,416,267	(3,798,811)	-	1,617,456
Machinery and equipment	130,076,563	(81,829,551)	-	48,247,012
Vehicles	1,421,909	(1,238,911)	-	182,998
Supplies	7,730,414	(6,105,696)	-	1,624,718
Tools, furniture and fixtures	29,726,005	(20,848,458)	-	8,877,547
Construction in progress	3,770,793	-	(301,888)	3,468,905
	<u>W 300,250,569</u>	<u>W (149,176,457)</u>	<u>W (301,888)</u>	<u>W 150,772,224</u>

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

(in thousands of Korean won)

	2017						
	Opening net book amount	Acquisition	Disposal	Depreciation	Transfer	The change in the scope of consolidation	Closing net book amount
Land	W 42,424,322	W -	W -	W -	W -	W -	W 42,424,322
Buildings	44,329,266	2,409,232	-	(2,993,896)	(407,790)	-	43,336,812
Structures	1,617,456	16,858	-	(242,432)	407,790	-	1,799,672
Machinery and equipment	48,247,012	11,951,930	(65,900)	(8,936,333)	1,841,619	328,453	53,366,781
Vehicles	182,998	259,624	(13,288)	(94,893)	-	-	334,441
Supplies	1,624,718	672,774	(44)	(790,339)	17,000	72,101	1,596,210
Tools, furniture and fixtures	8,877,547	2,365,004	(13,735)	(3,136,873)	461,316	198,737	8,751,996
Construction in progress	3,468,905	6,165,886	-	-	(2,319,935)	-	7,314,856
	<u>W 150,772,224</u>	<u>W 23,841,308</u>	<u>W (92,967)</u>	<u>W (16,194,766)</u>	<u>W -</u>	<u>W 599,291</u>	<u>W 158,925,090</u>

(in thousands of Korean won)

	2016						
	Opening net book amount	Acquisition	Disposal	Depreciation	Transfer	The change in the scope of consolidation	Closing net book amount
Land	W 10,546,728	W -	W -	W -	W (1,913,249)	W 33,790,843	W 42,424,322
Buildings	18,024,284	1,655,189	-	(2,492,908)	(143,648)	27,286,349	44,329,266
Structures	343,769	25,800	-	(177,180)	-	1,425,067	1,617,456
Machinery and	-	6,308,407	(123,079)	(6,157,210)	-	48,218,894	48,247,012

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equipment							
Vehicles	2	912	(1)	(89,602)	-	271,687	182,998
Supplies	203,509	328,406	(192)	(630,361)	48,589	1,674,767	1,624,718
Tools, furniture and fixtures	-	1,605,736	(42)	(1,883,953)	2,197,354	6,958,452	8,877,547
Construction in progress	-	1,538,727	-	-	(2,225,854)	4,156,032	3,468,905
	<u>W 29,118,292</u>	<u>W 11,463,177</u>	<u>W (123,314)</u>	<u>W (11,431,214)</u>	<u>W (2,036,808)</u>	<u>W 123,782,091</u>	<u>W 150,772,224</u>

Line items including depreciation of property, plant and equipment for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>		2017		2016
Cost of sales	W	14,125,720	W	9,672,362
Selling and administrative expenses(included research and development costs)		2,069,046		1,758,852
	<u>W</u>	<u>16,194,766</u>	<u>W</u>	<u>11,431,214</u>

12. Investment Properties

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

<i>(in thousands of Korean won)</i>		2017		
		Cost	Accumulated depreciation	Book amount
Land	W	17,575,899	W -	W 17,575,899
Buildings		24,238,440	(15,811,467)	8,426,973
	<u>W</u>	<u>41,814,339</u>	<u>W (15,811,467)</u>	<u>W 26,002,872</u>
<i>(in thousands of Korean won)</i>		2016		
		Cost	Accumulated depreciation	Book amount
Land	W	17,575,899	W -	W 17,575,899
Buildings		24,238,440	(15,114,501)	9,123,939
	<u>W</u>	<u>41,814,339</u>	<u>W (15,114,501)</u>	<u>W 26,699,838</u>

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

<i>(in thousands of Korean won)</i>	2017			
	Beginning balance	Depreciation	Transfer	Ending balance
Land	₩ 17,575,899	₩ -	₩ -	₩ 17,575,899
Buildings	9,123,939	(696,966)	-	8,426,973
	<u>₩ 26,699,838</u>	<u>₩ (696,966)</u>	<u>₩ -</u>	<u>₩ 26,002,872</u>

<i>(in thousands of Korean won)</i>	2016			
	Beginning balance	Depreciation	Transfer	Ending balance
Land	₩ 15,662,650	₩ -	₩ 1,913,249	₩ 17,575,899
Buildings	9,871,530	(842,651)	95,060	9,123,939
	<u>₩ 25,534,180</u>	<u>₩ (842,651)</u>	<u>₩ 2,008,309</u>	<u>₩ 26,699,838</u>

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

<i>(in thousands of Korean won)</i>	2017	2016
Rental sales	₩ 4,510,465	₩ 4,520,940
Rental income	2,321,691	2,293,089
Operating expenses	2,275,981	2,637,583

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

<i>(in thousands of Korean won)</i>	2017	2016
Book amount	₩ 26,002,872	₩ 26,699,838
Fair value	113,043,952	109,444,757

13. Intangible Assets

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

<i>(in thousands of Korean won)</i>	2017		
	Cost	Accumulated amortization ¹	Book amount
Industrial rights	₩ 6,272,376	₩ (3,326,958)	₩ 2,945,418
Membership rights	7,499,341	(408,876)	7,090,465

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Other intangible assets	32,672,747	(15,359,869)	17,312,878
Construction in progress	824,076	-	824,076
Goodwill	2,510,095	-	2,510,095
	<u>₩ 49,778,635</u>	<u>₩ (19,095,703)</u>	<u>₩ 30,682,932</u>

¹Accumulated impairment loss is included.

(in thousands of Korean won)

	2016		
	Cost	Accumulated amortization ¹	Book amount
Industrial rights	₩ 4,886,869	₩ (2,477,089)	₩ 2,409,780
Membership rights	7,403,784	(444,486)	6,959,298
Other intangible assets	31,396,933	(7,974,794)	23,422,139
Construction in progress	1,473,876	-	1,473,876
Goodwill	-	-	-
	<u>₩ 45,161,462</u>	<u>₩ (10,896,369)</u>	<u>₩ 34,265,093</u>

¹Accumulated impairment loss is included.

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

(in thousands of Korean won)

	2017							The change in the scope of consolidation	Ending balance
	Beginning balance	Acquisition	Disposal	Amortization	Impairment	Transfer			
Industrial rights	₩ 2,409,780	₩ 338,883	₩ -	₩ (849,869)	₩ -	₩ 1,046,624	₩ -	₩ 2,945,418	
Membership rights	6,959,298	137,937	(23,665)	-	16,895	-	-	7,090,465	
Other intangible assets	23,422,139	1,275,814	-	(7,385,075)	-	-	-	17,312,878	
Construction in progress	1,473,876	396,824	-	-	-	(1,046,624)	-	824,076	
Goodwill	-	-	-	-	-	-	2,510,095	2,510,095	
	<u>₩ 34,265,093</u>	<u>₩ 2,149,458</u>	<u>₩ (23,665)</u>	<u>₩ (8,234,944)</u>	<u>₩ 16,895</u>	<u>₩ -</u>	<u>₩ 2,510,095</u>	<u>₩ 30,682,932</u>	

(in thousands of Korean won)

	2016							The change in the scope of consolidation	Ending balance
	Beginning balance	Acquisition	Disposal	Amortization	Impairment (Reversal)	Transfer			
Industrial rights	₩ 766,407	₩ 219,179	₩ -	₩ (516,860)	₩ -	₩ 1,745,164	₩ 195,890	₩ 2,409,780	
Membership rights	5,307,996	-	(150,000)	-	(30,667)	-	1,831,969	6,959,298	
Other intangible assets	-	593,338	-	(5,523,155)	-	28,500	28,323,456	23,422,139	
Construction in progress	2,902,253	316,787	-	-	-	(1,745,164)	-	1,473,876	
	<u>₩ 8,976,656</u>	<u>₩ 1,129,304</u>	<u>₩ (150,000)</u>	<u>₩ (6,040,015)</u>	<u>₩ (30,667)</u>	<u>₩ 28,500</u>	<u>₩ 30,351,315</u>	<u>₩ 34,265,093</u>	

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Line items including amortization of intangible assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(In thousands of Korean won)</i>	2017		2016	
Cost of sales	₩	293,897	₩	246,684
Selling and administrative expenses(included research and development costs)		7,941,047		5,793,331
	₩	<u>8,234,944</u>	₩	<u>6,040,015</u>

Goodwill arose from acquisition of automobile repairing business during 2017. The management of the Group reviews operation performance of the business. The recoverable amount of all CGUs has been determined based on value-in-use calculations and according to the test results, the Group did not recognize any impairment. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. The following table sets out the key assumptions used in the value-in-use calculations.

2017

Long-term growth rate	1.0%
Pre-tax discount rate	10.8%

14. Other Payables

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

<i>(in thousands of Korean won)</i>	2017				2016			
	Current		Non-current		Current		Non-current	
Non-trade payables	₩	26,983,862	₩	-	₩	23,992,391	₩	-
Accrued expenses		6,644,811		-		5,429,703		-
Dividend payables		66,585		-		65,873		-
Leasehold deposits received		9,157,590		-		2,351,862		6,888,342
	₩	<u>42,852,848</u>	₩	<u>-</u>	₩	<u>31,839,829</u>	₩	<u>6,888,342</u>

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15. Other Liabilities

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

(in thousands of Korean won)

	2017		2016	
	Current	Non-current	Current	Non-current
Withholdings	₩ 4,562,273	₩ -	₩ 3,988,698	₩ -
Value added tax withheld	53,144	-	-	-
Other long-term employee benefits	-	2,330,729	-	1,998,606
Advance received	4,251,379	-	3,537,792	-
Deferred revenue	409	-	-	-
Emission obligation	29,820	-	82,268	-
	₩ 8,897,025	₩ 2,330,729	₩ 7,608,758	₩ 1,998,606

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

(in thousands of Korean won)

	2017				
	Beginning balance	Profit or loss	Payment	The change in the scope of consolidation	Ending balance
Other long-term employee benefits	₩ 1,998,606	₩ 653,974	₩ (321,851)	₩ -	₩ 2,330,729

(in thousands of Korean won)

	2016				
	Beginning balance	Profit or loss	Payment	The change in the scope of consolidation	Ending balance
Other long-term employee benefits	₩ 222,740	₩ 383,725	₩ (274,896)	₩ 1,667,037	₩ 1,998,606

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16. Post-employment Benefits

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

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

Details of net defined benefit liabilities recognized in the statements of financial position at the end of the reporting periods, are as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
Present value of defined benefit obligations	₩	59,212,021	₩	56,764,154
Fair value of plan assets		(60,477,093)		(60,744,939)
Net defined benefit liabilities		<u>641,207</u>		<u>76,930</u>
Net defined benefit assets	₩	<u>(1,906,279)</u>	₩	<u>(4,057,715)</u>

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

<i>(in thousands of Korean won)</i>	2017		2016	
Discount rate		3.7%		3.5%
Expected rate of salary increase		5.9%		6.2%

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

<i>(in thousands of Korean won)</i>	2017					
	Present value of defined benefit obligations		Fair value of plan assets		Total	
Beginning balance	₩	56,764,154	₩	(60,744,939)	₩	(3,980,785)
Current service cost		8,379,133		-		8,379,133
Interest expense (income)		2,125,149		(2,036,192)		88,957
		<u>10,504,282</u>		<u>(2,036,192)</u>		<u>8,468,090</u>
Remeasurements:						
Return on plan assets (excluding amounts included in net interest)		-		823,375		823,375
Actuarial gain from change in demographic assumptions		(144,174)		-		(144,174)

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Actuarial gain from change in financial assumptions	(3,255,552)	-	(3,255,552)
Actuarial gain from experience adjustments	(1,886,702)	-	(1,886,702)
	(5,286,428)	823,375	(4,463,053)
Employers contributions	-	(2,000,000)	(2,000,000)
Benefits payments	(2,849,076)	3,534,968	685,892
Others	54,305	(54,305)	-
The change in the scope of consolidation	24,784	-	24,784
Ending balance	W 59,212,021	W (60,477,093)	W (1,265,072)

(in thousands of Korean won)

	2016		
	Present value of defined benefit obligations	Fair value of plan assets	Total
Beginning balance	W 15,583,429	W (17,051,460)	W (1,468,031)
Current service cost	8,512,145	-	8,512,145
Interest expense (income)	1,505,039	(1,348,850)	156,189
	10,017,184	(1,348,850)	8,668,334
Remeasurements:			
Return on plan assets (excluding amounts included in net interest)	-	295,027	295,027
Actuarial gain from change in demographic assumptions	(57,285)	-	(57,285)
Actuarial gain from change in financial assumptions	(278,589)	-	(278,589)
Actuarial gain from experience adjustments	(193,678)	-	(193,678)
	(529,552)	295,027	(234,525)
Employers contributions	-	(8,000,000)	(8,000,000)
Benefits payments	(3,515,462)	1,962,443	(1,553,019)
Others	461,854	(4,648,859)	(4,187,005)
The change in the scope of consolidation	34,746,701	(31,953,240)	2,793,461
Ending balance	W 56,764,154	W (60,744,939)	W (3,980,785)

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

(in thousands of Korean won)

	2017			
	Increase		Decrease	
1% change of discount rate	₩	(5,455,961)	₩	6,474,475
1% change of salary growth rate		6,318,666		(5,438,837)

(in thousands of Korean won)

	2016			
	Increase		Decrease	
1% change of discount rate	₩	(5,044,126)	₩	6,020,291
1% change of salary growth rate		5,852,589		(5,011,590)

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

(in thousands of Korean won)

	2017		2016	
Current service cost	₩	8,379,133	₩	8,512,145
Interest cost		88,957		156,189
	₩	<u>8,468,090</u>	₩	<u>8,668,334</u>

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

(in thousands of Korean won)

	2017		2016	
	Amount	Composition	Amount	Composition
Debt instruments	58,425,656	96.6%	51,981,258	85.6%
Deposits	2,017,837	3.3%	1,960,934	3.2%
Cash and cash equivalents	33,600	0.1%	6,802,747	11.2%
	<u>60,477,093</u>	<u>100.0%</u>	<u>60,744,939</u>	<u>100.0%</u>

The Group reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2018, are ₩ 2,992,506 thousand (2017: ₩ 2,969,924 thousand). Such expected contributions include the non-deductible amount of ₩ 1,886,582 thousand, which will decrease due to reorganization and are detailed in Note 16.

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

<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 ¹	₩ 1,534,743	₩ 2,788,980	₩ 8,189,465	₩ 245,746,310	₩ 258,259,498	

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

<i>(in thousands of Korean won)</i>	2016					Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years		
Pension benefits	₩ 1,661,791	₩ 2,025,417	₩ 7,803,173	₩ 226,481,941	₩ 237,972,322	

The weighted average duration of the defined benefit obligation is 13.2 years (2016: 13.4 years).

Recognized expense related to the defined contribution plan for the year ended December 31, 2017, is ₩ 334,237 thousand (2016: ₩ 315,252 thousand).

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

17. Provisions

The Group's provisions are provisions for product warranties as at the end of the reporting period. Changes in provisions for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017					
	Beginning balance	Profit or loss	Payment	The change in the scope of consolidation	Ending balance	
Provisions for product warranties	₩ 1,334,016	₩ (118,691)	₩ (469,017)	₩ -	₩ 746,308	

<i>(in thousands of Korean won)</i>	2016					
	Beginning balance	Profit or loss	Payment	The change in the scope of consolidation	Ending balance	
Provisions for product warranties	₩ -	₩ 1,221,463	₩ (1,009,718)	₩ 1,122,271	₩ 1,334,016	

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18. Share Capital

Details of share capital as at the end of the reporting periods, are as follows:

<i>(in Korean won, except for number of shares)</i>	2017	2016
Authorized (in shares)	250,000,000	250,000,000
Par value	₩ 500	₩ 500
Outstanding (in shares):		
Ordinary share	93,020,173	93,020,173
Share capital:		
Ordinary share	₩ 46,510,086,500	₩ 46,510,086,500

19. Other Paid-in-Capital

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

<i>(in thousands of Korean won)</i>	2017	2016
Share premium	₩ 1,302,628,300	₩ 1,302,628,300
Treasury shares	(11,092,609)	(11,092,609)
Other capital surplus	(5,770,227)	(5,770,227)
	₩ 1,285,765,464	₩ 1,285,765,464

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

20. Retained Earnings and Dividends

Retained earnings at the end of the reporting periods, consist of:

<i>(in thousands of Korean won)</i>	2017	2016
Legal reserve:		
Earned profit reserve ¹	₩ 19,260,011	₩ 16,509,158
	19,260,011	16,509,158
Discretionary reserve:		
Reserve for revaluation ²	443,289,239	443,289,239
Dividend equalization reserve	60,000,000	60,000,000
Director's retirement bonus reserve	93,918,000	93,918,000
Voluntary reserve	110,000,000	110,000,000
	707,207,239	707,207,239

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Unappropriated retained earnings	912,613,795	766,142,607
	<u>₩ 1,639,081,045</u>	<u>₩ 1,489,859,004</u>

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

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

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

<i>(in thousands of Korean won)</i>	2017	2016
Beginning balance	₩ 1,489,859,004	₩ 1,255,925,338
Profit for the year	169,543,618	261,535,602
Dividend payments	(27,508,525)	(27,508,525)
Remeasurements of net defined benefit assets	3,373,346	(16,823)
Remeasurements of net defined benefit assets of associates	3,813,602	(76,588)
Ending balance	<u>₩ 1,639,081,045</u>	<u>₩ 1,489,859,004</u>

Details of dividend payments as at the end of the reporting periods, are as follows:

<i>(in thousands of Korean won, except for number of shares)</i>	2017	2016
Outstanding shares issued (in shares)	93,020,173	93,020,173
Treasury shares (in shares)	1,325,090	1,325,089
Dividend shares (in shares)	91,695,083	91,695,084
Dividend per share	₩ 300	₩ 300
Total dividend	<u>₩ 27,508,524,900</u>	<u>₩ 27,508,525,500</u>

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

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21. Other Components of Equity

Changes in the fair value of AFS financial assets for the years ended December 31, 2017 and 2016, are as follows:

<i>(in thousands of Korean won)</i>	2017				
	Beginning balance	Increase (Decrease) ¹	Non-controlling interests	Reclassification to profit or loss	Ending balance
Changes in the fair value of available-for-sale financial assets	₩ 1,520,105	₩ (902,998)	₩ (9,890)	₩ (203,285)	₩ 403,932
Exchange differences on translating foreign operations	-	(144,036)	36,169	-	(107,867)
Share of other comprehensive income of associates	(20,220,046)	(30,374,729)	-	-	(50,594,775)
	<u>₩ (18,699,941)</u>	<u>₩ (31,421,763)</u>	<u>₩ 26,279</u>	<u>₩ (203,285)</u>	<u>₩ (50,298,710)</u>

¹Amount of tax effect is deducted.

<i>(in thousands of Korean won)</i>	2016				
	Beginning balance	Increase (Decrease) ¹	Non-controlling interests	Reclassification to profit or loss	Ending balance
Changes in the fair value of available-for-sale financial assets	₩ 1,512,351	₩ 8,891	₩ (1,137)	₩ -	₩ 1,520,105
Share of other comprehensive income of associates	(24,209,784)	4,645,984	-	(656,246)	(20,220,046)
	<u>₩ (22,697,433)</u>	<u>₩ 4,654,875</u>	<u>₩ (1,137)</u>	<u>₩ (656,246)</u>	<u>₩ (18,699,941)</u>

¹Amount of tax effect is deducted.

22. Selling and Administrative Expenses

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

<i>(in thousands of Korean won)</i>	2017	2016
Payroll	₩ 33,022,841	₩ 29,149,318

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Post-employment benefits	4,260,910	5,235,192
Employee benefits	3,549,860	2,775,100
Training expenses	1,240,445	1,609,590
Travel expenses	1,733,046	1,629,934
Vehicles maintenance expenses	229,033	136,987
Insurance	342,739	239,209
Taxes and dues	1,193,367	1,037,489
Entertainment expenses	692,230	637,604
Supplies expenses	1,763,742	1,016,443
Publication expenses	511,879	418,793
Communication expenses	190,568	169,000
(Reversal of provision for) Impairment loss on receivables	(35,537)	(501)
Utility expenses	860,161	848,969
Repairs expenses	370,825	402,522
Conference expenses	20,319	41,844
Service fees	8,658,098	6,817,345
Rental expenses	1,230,461	600,525
Depreciation of investment property	696,966	842,651
Depreciation of property, plant and equipment	1,487,428	1,407,335
Amortization of intangible assets	7,888,965	5,769,429
Travel and transportation expenses	1,190,567	710,201
Service expenses	677,901	627,542
Export expenses	17,151,253	10,742,987
Advertisement	3,922,314	4,392,147
Foreign market development expenses	50,738	149,436
Sales damage expenses	(118,691)	1,221,463
Test expenses	125,832	111,487
Sample expenses	33,401	37,970
Research and development expenses	4,318,138	2,956,579
Miscellaneous expenses	377,716	631,259
	<u>₩ 97,637,515</u>	<u>₩ 82,365,849</u>

23. Breakdown of Expenses by Nature

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

<i>(in thousands of Korean won)</i>	2017	2016
Changes in inventories	₩ (1,434,243)	₩ 7,843,580
Purchase of raw materials	428,007,759	260,141,952
Purchase of merchandises	2,427,559	4,056,609
Payroll	75,887,595	60,543,547

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Post-employment benefits	8,883,155	8,983,586
Employee benefits	10,907,948	8,388,810
Power expenses	12,590,590	9,003,390
Fuel expenses	2,281,764	1,213,827
Depreciation of investment property	696,966	842,651
Depreciation of property, plant and equipment	16,194,766	11,431,214
Amortization of intangible assets	8,234,944	6,040,015
Supplies expenses	5,473,853	3,923,625
Repairs expenses	3,009,445	2,431,203
Service fees	21,597,591	16,337,579
Export expenses	17,151,253	10,742,987
Foreign market development expenses	50,738	149,436
Research and development expenses	113,777	118,247
Others	13,448,851	16,260,420
Total cost of sales, and selling and administrative expenses	₩ 625,524,311	₩ 428,452,678

24. Finance Income and Finance Costs

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

<i>(in thousands of Korean won)</i>	2017	2016
Finance income		
Interest income	₩ 9,295,673	₩ 9,884,689
Gains on foreign currency transaction	4,104,789	4,787,626
Gains on foreign currency translation	1,479,854	412,231
Gains on disposal of AFS financial assets	4,886,840	2,467,093
Gains on valuation and disposal of financial assets at fair value through profit or loss	1,077,738	137,619
	₩ 20,844,894	₩ 17,689,258
Finance costs		
Interest expense	₩ 558,793	₩ 333,193
Losses on foreign currency transaction	3,897,397	3,669,501
Losses on foreign currency translation	37,915	1,806,083
(Reversal of) Impairment loss on AFS financial assets	-	(364)
Losses on disposal of trade receivables	-	44
Losses on valuation and disposal of financial assets at fair value through profit or loss	362,724	-
	₩ 4,856,829	₩ 5,808,457

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25. Other Non-operating Income and Expenses

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

<i>(in thousands of Korean won)</i>	2017	2016
Other non-operating income		
Dividend income	₩ 7,004	₩ 5,223
Gains on foreign currency transaction	5,127,211	7,995,283
Gains on foreign currency translation	147,640	4,140,169
Gains on foreign exchange forward contracts transaction	1,927,812	-
Gains on valuation of foreign exchange forward contracts	-	2,309,748
Rental income	2,321,691	2,293,089
Gains on disposal of property, plant and equipment	60,983	-
Gains on disposal of associates	-	2,769,690
Gain from a bargain purchase	-	22,557,990
Miscellaneous gain	764,142	3,124,728
	<u>₩ 10,356,483</u>	<u>₩ 45,195,920</u>
Other non-operating expenses		
Losses on foreign currency transaction	₩ 11,214,460	₩ 8,164,790
Losses on foreign currency translation	2,304,574	2,440,178
Losses on foreign exchange forward contracts transaction	-	2,468,315
Losses on disposal of property, plant and equipment	79,571	123,311
Losses on disposal of intangible assets	939	34,091
Impairment loss on intangible assets	4,438	30,667
Donation	2,851,935	3,143,784
Miscellaneous loss	110,388	340,095
	<u>₩ 16,566,305</u>	<u>₩ 16,745,231</u>

26. Tax Expense and Deferred Tax

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

<i>(in thousands of Korean won)</i>	2017	2016
Current tax:		
Current tax on profits for the year	₩ 26,469,690	₩ 22,672,703
Adjustments in respect of prior years	<u>(879,332)</u>	<u>1,760,355</u>
Deferred tax:		
Origination and reversal of temporary differences	4,680,110	8,018,449

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Charged or credited directly to equity		(131,284)		-
Income tax expense	₩	30,139,184	₩	32,451,507

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

<i>(in thousands of Korean won)</i>	2017		2016	
Profit before income tax expense	₩	209,100,175	₩	301,908,446
Tax at domestic tax rates applicable to profits in the respective countries		48,893,807		70,810,672
Tax effects of:				
Income not subject to tax		(402)		(250)
Expenses not deductible for tax purposes		156,661		199,488
Tax credit and tax cut		(228,302)		(320,798)
Additional tax payment		(879,332)		1,760,355
Unrecognized changes in net assets of investments in subsidiaries and associates		(17,369,633)		(32,137,760)
Gain from a bargain purchase		-		(5,290,830)
Tax for recirculation of corporate income		1,229,090		1,530,232
Others		(1,662,705)		(4,099,602)
		(18,754,623)		(38,359,165)
Income tax expense	₩	30,139,184	₩	32,451,507

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

<i>(in thousands of Korean won)</i>	2017			2016		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Remeasurements of net defined benefit liabilities	₩ 4,463,052	₩ (1,089,706)	₩ 3,373,346	₩ 234,525	₩ (56,755)	₩ 177,770
Remeasurements of net defined benefit liabilities of associates	4,964,199	(1,150,596)	3,813,603	(1,777,058)	1,700,470	(76,588)
Change in the fair value of AFS securities	(1,459,332)	353,048	(1,106,284)	11,730	(2,839)	8,891
Exchange differences on translating foreign operations	(144,036)	-	(144,036)	-	-	-
Share of other comprehensive income of associates	(40,067,540)	9,692,810	(30,374,730)	(1,194,026)	5,183,765	3,989,739

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₩	(32,243,657)	₩	7,805,556	₩	(24,438,101)	₩	(2,724,829)	₩	6,824,641	₩	4,099,812
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The analysis of deferred tax assets and liabilities as at December 31, 2017 and 2016, is as follows:

<i>(in thousands of Korean won)</i>	2017		2016	
Deferred tax assets				
Deferred tax asset to be recovered after more than 12 months	₩	6,392,583	₩	6,162,845
Deferred tax asset to be recovered within 12 months		14,177,480		13,768,784
		20,570,063		19,931,629
Deferred tax liabilities				
Deferred tax liability to be recovered after more than 12 months		64,160,008		63,719,960
Deferred tax liability to be recovered within 12 months		44,758,290		47,809,698
		108,918,298		111,529,658
Deferred tax assets (liabilities), net	₩	(88,348,235)	₩	(91,598,029)

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

<i>(in thousands of Korean won)</i>	2017				
	Beginning balance	Statement of profit or loss	Other comprehensive income	The change in the scope of consolidation	Ending balance
Deferred tax assets(liabilities)					
Unearned revenue	₩ (821,672)	₩ 458,818	₩ -	₩ -	₩ (362,854)
Other long-term employee benefits	207,123	80,374	-	-	287,497
Accrued expenses	114,085	25,722	-	-	139,807
Property, plant and equipment	1,908,964	298,566	-	-	2,207,530
Net defined benefit liabilities	515,732	211,032	(1,089,706)	-	(362,942)
Derivative financial instruments	(15,243)	15,243	-	-	-
Financial assets at fair value through profit or loss	(17,511)	(75,857)	-	-	(93,368)
Intangible assets	(10,446,114)	1,551,329	-	-	(8,894,785)
Construction in progress	232,760	-	-	-	232,760
AFS Financial Assets	2,731,485	-	353,048	-	3,084,533
Advanced depreciation provision	(2,556,024)	-	-	-	(2,556,024)
Valuation of inventories	32,910	(7,975)	-	-	24,935
Impairment loss	281,686	-	-	-	281,686
Annual leave provisions	486,174	(25,855)	-	-	460,319
Stock dividend	307	-	-	-	307
Provisions for product warranties	322,832	(142,226)	-	-	180,606
Emission obligation	12,742	(5,526)	-	-	7,216
Investment in subsidiaries and associates	(84,588,265)	(7,063,755)	8,542,214	-	(83,109,806)

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	(91,598,029)	(4,680,110)	7,805,556	-	(88,472,583)
Tax loss carryforwards	-	131,284	-	(6,936)	124,348
	₩ (91,598,029)	₩ (4,548,826)	₩ 7,805,556	₩ (6,936)	₩ (88,348,235)

(in thousands of Korean won)

	2016				
	Beginning balance	Statement of profit or loss	Other comprehensive income	The change in the scope of consolidation	Ending balance
Deferred tax assets(liabilities)					
Unearned revenue	₩ (353,025)	₩ (54,064)	₩ -	₩ (414,583)	₩ (821,672)
Other long-term employee benefits	53,903	39,076	-	114,144	207,123
Accrued expenses	16,615	70,132	-	27,338	114,085
Property, plant and equipment	2,235,530	895,150	-	(1,221,716)	1,908,964
Net defined benefit liabilities	(482,174)	727,233	(56,755)	327,428	515,732
Derivative financial instruments	647,971	(663,214)	-	-	(15,243)
Gains(loss) on foreign currency translation	(781,741)	781,741	-	-	-
Financial assets at fair value through profit or loss	-	2,817	-	(20,328)	(17,511)
Intangible assets	203,888	1,209,200	-	(11,859,202)	(10,446,114)
Construction in progress	232,760	-	-	-	232,760
AFS Financial Assets	3,391,255	(928,654)	(2,839)	271,723	2,731,485
Advanced depreciation provision	(2,556,024)	-	-	-	(2,556,024)
Valuation of inventories	-	11,647	-	21,263	32,910
Impairment loss	-	-	-	281,686	281,686
Annual leave provisions	-	97,769	-	388,405	486,174
Stock dividend	-	-	-	307	307
Provisions for product warranties	-	66,404	-	256,428	322,832
Emission obligation	-	12,742	-	-	12,742
Investment in subsidiaries and associates	(81,186,072)	(10,286,428)	6,884,235	-	(84,588,265)
	₩ (78,577,114)	₩ (8,018,449)	₩ 6,824,641	₩ (11,827,107)	₩ (91,598,029)

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

(in thousands of Korean won)	2017	2016	Remarks
Interests in subsidiary	₩ 1,166,705,594	₩ 1,165,191,376	No plan for disposal

27. Cash Generated from Operations

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

(in thousands of Korean won)	2017	2016
Adjustments for:		
Income tax expense	₩ 30,139,184	₩ 32,451,507

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Losses on foreign currency translation	2,342,489	4,246,261
Losses on foreign currency transaction	2,344,720	-
Losses on valuation and disposal of financial assets at fair value through profit or loss	362,724	-
Reversal of impairment loss on AFS financial assets	-	(364)
Losses on foreign exchange forward contracts transaction	-	2,468,315
Losses on disposal of property, plant and equipment	79,571	123,311
Losses on disposal of intangible assets	939	34,091
Impairment loss of intangible assets	4,438	30,667
Depreciation of investment property	696,966	842,651
Depreciation of property, plant and equipment	16,194,766	11,431,214
Amortization of intangible assets	8,234,944	6,040,015
Other long-term employee benefits	653,974	383,725
Post-employment benefit obligations	8,468,090	8,668,334
Interest expense	558,793	333,193
Sales damage expenses	(118,691)	1,221,463
Miscellaneous losses	-	40,739
Losses on disposal of trade receivables	-	44
Losses on valuation and disposal of inventory	80,859	342,610
Reversal of impairment loss	(35,537)	(501)
Interest income	(9,295,673)	(9,884,689)
Dividend received	(11,823)	(6,983)
Gains on foreign currency translation	(1,627,494)	(4,552,400)
Gains on disposal of property, plant and equipment	(60,983)	-
Gains on foreign exchange forward contracts transaction	(1,927,812)	-
Gains on valuation of foreign exchange forward contracts	-	(2,309,748)
Gains on disposal of financial assets at fair value through profit or loss	(1,077,738)	(137,619)
Gains on disposal of AFS financial assets	(4,886,840)	(2,467,093)
Miscellaneous gains	(21,179)	-
Gains on disposal of associates	-	(2,769,690)
Share of profit of associates	(116,962,101)	(192,617,507)
Gain from a bargain purchase	-	(22,557,990)
	₩ (65,863,414)	₩ (168,646,444)

(in thousands of Korean won)

	2017	2016
Changes in operating assets and liabilities:		
Decrease(increase) in trade receivables	₩ 4,481,660	₩ (21,053,585)
Decrease(increase) in non-trade receivables	(366,442)	274,665

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Decrease(increase) in advance payments	2,092,090	(2,333,766)
Increase(decrease) in prepaid expenses	(1,382)	372,915
Increase in prepaid value added tax	(447,239)	(109,841)
Decrease(increase) in inventory	(146,529)	10,649,383
Increase in leasehold deposits provided	(658,817)	(569,670)
Increase in trade payables	4,507,762	6,671,960
Increase in non-trade payables	2,272,953	3,584,374
Decrease in value added tax withheld	(29,983)	-
Increase(decrease) in advance received	583,301	(245,487)
Increase(decrease) in accrued expenses	1,259,318	(1,694,896)
Increase in withholdings	565,534	1,496,648
Increase in deferred revenue	409	-
Increase(decrease) in leasehold deposits received	(69,293)	224,144
Decrease in provisions for product warranties	(469,017)	(1,009,718)
Increase(decrease) in emission obligation	(52,448)	62,023
Decrease in post-employment benefit obligation	(2,849,076)	(3,515,462)
Decrease(increase) in pension plan assets	1,534,968	(6,037,557)
Decrease in other long-term employee benefits	(321,851)	(274,896)
	₩ 11,885,918	₩ (13,508,766)

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

<i>(in thousands of Korean won)</i>	2017	2016
Transfer of construction in progress to intangible assets	₩ 1,046,624	₩ 1,745,164
Transfer of construction in progress to property, plant and equipment	2,319,935	2,225,854
Increase in non-trade payables in relation to acquisition of property, plant and equipment	1,165,819	494,688
Increase in non-trade payables in relation to acquisition of intangible assets	77,676	52,477
Decrease in non-trade payables in relation to acquisition of property, plant and equipment	494,688	-
Decrease in non-trade payables in relation to acquisition of intangible assets	52,477	83,764
Increase in non-trade receivables in relation to disposal of AFS financial assets	9,712,548	-

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

<i>(in thousands of Korean won)</i>	Short-term borrowings
Beginning balance	₩ 29,537,824
Exchange differences	(1,456,718)

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Cash flows		21,753,921
Other changes(declared dividend and others)		118,540
Ending balance	₩	49,953,567

28. Related Party Transactions

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

Type	Name of related parties
Individuals	Yang-Rai Cho, Hyun-Shick Cho, Hyun-Bum Cho
Associates	Hankook Tire Co., Ltd., EmFrontier, Inc.
Domestic subsidiaries of associates	Daehwa Engineering & Machinery Co., Ltd., MK Technology Corp., Hankook Donggeurami Partners Co., Ltd. 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.,
Overseas subsidiaries of associates	Hankook Tire Sweden AB, Beijing Jielun Trading Company Co.,Ltd., Hankook Tire Thailand Co.,Ltd., Hankook Lastikleri A.S., Hankook Tire Polska Sp. z o.o., Hankook Tire de Colombia Ltda., Hankook Tire America Holdings I, LLC, Hankook Tire America Holdings II, LLC, Hankook Tire Manufacturing Tennessee LP, Hankook Tire Ceska Republika s.r.o. MK Technology (CHONGQING) Mould Co., Ltd., PT. EMFRONTIER ENS Indonesia, Emfrontier America Inc Hankook Tyre Australia Retail Pty.,Ltd., JAX Quickfit Franchising Systems Unit Trust., JAX Quickfit Franchising Systems Pty Ltd., JAX Quickfit Properties Pty Ltd., Hankook Tires India llp. Hankook Tire Latam, S.A. Hankook Tire Latin America Distribution Center, S.A.
Domestic associate of associates	Hanon Systems Co., Ltd.
Other related parties ¹	Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery Jiaxing Co., Ltd., Another WTE Co., Ltd., H-2 WTE Co., Ltd., Another Geumsan Co., Ltd., YOUKNOWTECH CO.,LTD.

¹ Although the entity is not the related party of the Group in accordance with Korean IFRS 1024, the entity belongs to the Large Enterprise Group to which the Group also belongs in accordance with the Monopoly Regulation and Fair Trade Act.

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

<i>(in thousands of Korean won)</i>		2017			
		Sales¹	Selling and administrative expenses	Purchase and others	Other income
Associates	Hankook Tire Co., Ltd.	₩ 110,004,705	₩ 646,806	₩ 12,543	₩ 1,015,352
	EmFrontier, Inc.	-	1,105,173	1,605,213	-
Domestic subsidiary of associates	Hankook Donggeurami Partners Co., Ltd.	5,700	231,672	-	2,580
	Daehwa Engineering & Machinery Co., Ltd.	-	2,035	-	-
	MK Technology Corp.	-	-	179,050	-
Overseas subsidiaries of associates	Hankook Tire Netherlands B.V. and others	-	102,139	-	787,399
Other related parties	Shin-Yang Tourist Development and others	-	2,148,397	-	5,814
		<u>₩ 110,010,405</u>	<u>₩ 4,236,222</u>	<u>₩ 1,796,806</u>	<u>₩ 1,811,145</u>

¹ Share of profit or loss of associates accounted for using the equity method is not included in sales.

<i>(in thousands of Korean won)</i>		2016			
		Sales¹	Selling and administrative expenses	Purchase and others	Other income
Associates	Hankook Tire Co., Ltd.	₩ 102,335,102	₩ 477,129	₩ -	₩ 1,015,892
	EmFrontier, Inc.	488	752,555	1,066,359	-
Domestic subsidiary of associates	Hankook Donggeurami Partners Co., Ltd.	-	187,769	23,500	-
Overseas subsidiaries of associates	Chongqing Hankooktire Co., Ltd. and others	-	204,913	-	2,230,108
Other related parties	Shin-Yang Tourist Development and others	-	2,084,369	-	5,814
		<u>₩ 102,335,590</u>	<u>₩ 3,706,735</u>	<u>₩ 1,089,859</u>	<u>₩ 3,251,814</u>

¹ Share of profit or loss of associates accounted for using the equity method is not included in sales.

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Outstanding balances of receivables and payables at the end of the reporting periods, are as follows:

<i>(in thousands of Korean won)</i>		2017					
		Name of entity	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables
Associates	Hankook Tire Co., Ltd.	₩ 42,278,418	₩ -	₩ 168,742	₩ 110,353	₩ 1,859,096	
	EmFrontier, Inc.	-	-	-	878,787	-	
Domestic subsidiary of associates	Hankook Donggeurami Partners Co., Ltd.	-	-	-	1,903	4,650	
	Daehwa Engineering & Machinery Co., Ltd.	-	-	-	2,238	-	
	MK Technology Corp.	-	-	-	149,050	-	
Overseas subsidiaries of associates	Hankook Tire Netherlands B.V. and others	-	-	263,846	7,622	-	
Other related parties	Shin-Yang Tourist Development and others	-	-	-	224,658	105,503	
		<u>₩ 42,278,418</u>	<u>₩ -</u>	<u>₩ 432,588</u>	<u>₩ 1,374,611</u>	<u>₩ 1,969,249</u>	

<i>(in thousands of Korean won)</i>		2016					
		Name of entity	Trade receivables	Loans	Other receivables	Non-trade payables	Other payables
Associates	Hankook Tire Co., Ltd.	₩ 46,512,414	₩ -	₩ -	₩ 6,165	₩ 1,859,096	
	EmFrontier, Inc.	-	-	-	935,854	-	
Domestic subsidiary of associates	Hankook Donggeurami Partners Co., Ltd.	-	-	-	44,392	-	
Overseas subsidiaries of associates	Hankook Tire Netherlands B.V. and others	-	54,750,160	1,166,330	56,835	-	
Other related parties	Shin-Yang Tourist Development and others	-	-	-	191,355	105,503	
		<u>₩ 46,512,414</u>	<u>₩ 54,750,160</u>	<u>₩ 1,166,330</u>	<u>₩ 1,234,601</u>	<u>₩ 1,964,599</u>	

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

<i>(in thousands of Korean won)</i>		2017					
		Beginning balance	Increase	Repayments	Exchange differences	Transfer	Ending balance
Hankook Tire Netherlands B.V.	Short-term loans	₩ 54,750,160	₩ -	₩ (52,405,440)	₩ (2,344,720)	₩ -	₩ -
		<u>₩ 54,750,160</u>	<u>₩ -</u>	<u>₩ (52,405,440)</u>	<u>₩ (2,344,720)</u>	<u>₩ -</u>	<u>₩ -</u>

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(in thousands of Korean won)

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

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

(in thousands of Korean won)

		2017		2016	
Name of entity		Dividend income	Contributions in cash	Dividend income	Contributions in cash
Associates	Hankook Tire Co., Ltd.	₩ 12,469,811	₩ -	₩ 12,469,811	₩ -

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

(in thousands of Korean won and thousands of HUF)

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

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

Description

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

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

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(in thousands of Korean won and thousands of USD)	2017		2016	
	Foreign currency	Korean won equivalent	Foreign currency	Korean won equivalent
USD	70,000 W	74,998,000	70,000 W	84,595,000

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

(in thousands of Korean won)	2017		2016	
Short-term benefits	W	8,834,308	W	6,925,561
Post-employment benefits		889,358		2,536,408
	W	9,723,666	W	9,461,969

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

29. Contingencies and Commitments

Details of outstanding credit facility agreements of the Group at the end of the reporting periods, are as follows:

(in thousands on Korean won and thousands of USD, CNY, EUR)		2017		2016			
		Commitment amount	Korean won	Commitment amount	Korean won		
Purchase card agreements	Shinhan Bank	KRW	20,000,000 W	20,000,000	KRW	20,000,000 W	20,000,000
Bank overdraft agreements	Woori Bank and others	KRW	5,000,000	5,000,000	KRW	5,000,000	5,000,000
Agreements to forward exchange contracts	Standard Chartered Bank Korea and others	USD	6,000	6,428,400	USD	6,000	7,251,000
		CNY	-	-	CNY	316,000	54,750,160
		EUR	-	-	EUR	2,000	2,535,200
Trade financing	Woori Bank and others	KRW	19,500,000	19,500,000	KRW	32,000,000	32,000,000
Letter of credit	KEB Hana Bank and others	USD	83,000	88,926,200	USD	32,000	38,672,000
Loans for working capital	Woori Bank and others	KRW	7,000,000	7,000,000	KRW	7,000,000	7,000,000
Export bill discounting	Woori Bank and others	USD	-	-	USD	41,000	49,548,500
Overdraft	Woori Bank and others	KRW	2,000,000	2,000,000	KRW	2,000,000	2,000,000
		KRW	53,500,000		KRW	66,000,000	
		USD	89,000 W	148,854,600	USD	79,000 W	218,756,860
		CNY	-		CNY	316,000	
		EUR	-		EUR	2,000	

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

As at December 31, 2017, the Group is named as a defendant in one legal action amounting to ₩250,000 thousand arising from labor matters. As at December 31, 2017, the Group cannot reasonably estimate the results of the legal action to have impact on the consolidated financial statements.

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30. Operating Segment Information

Operating segments of the Group are classified into investment business and storage batteries business. Management has determined the operating segments based on the information reported to and reviewed by the Board of Directors that performs resource allocation and performance assessment. From a product perspective, management classifies the investment and storage batteries.

Profit or loss by each segment for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

	2017					
	Investment business		Storage batteries business		Total	
Total segment revenue	₩	195,163,575	₩	629,926,098	₩	825,089,673
Inter-segment revenue		(243,429)		-		(243,429)
Revenue from external customers		194,920,146		629,926,098		824,846,244
Operating profit	₩	138,559,778	₩	60,762,154	₩	199,321,932

(in thousands of Korean won)

	2017					
	Investment business		Storage batteries business		Total	
Total segment revenue	₩	268,453,944	₩	421,578,164	₩	690,032,108
Inter-segment revenue		(2,475)		-		(2,475)
Revenue from external customers		268,451,469		421,578,164		690,029,633
Operating profit	₩	217,227,747	₩	44,349,208	₩	261,576,955

The Group derives the following types of revenue:

(in thousands of Korean won)

	2017		2016	
Sales of finished goods	₩	625,487,862	₩	417,376,242
Sales of merchandise		4,509,790		3,833,851
Service sales		20,851,546		23,385,230
Rental sales		4,510,465		4,520,940
Trademark right revenue		48,735,137		47,887,401
Share of profit or loss of associates accounted for using the equity method		116,962,101		192,617,507
Others		3,789,343		408,462
	₩	824,846,244	₩	690,029,633

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

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<i>(in thousands of Korean won)</i>		2017		2016
Korea (headquarter)	₩	824,846,244	₩	690,029,633

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

<i>(in thousands of Korean won)</i>		2017		2016
A Company	₩	227,324,923	₩	288,866,785

31. Inventories

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

<i>(in thousands of Korean won)</i>		2017		2016
Finished goods	₩	15,794,862	₩	7,332,630
Merchandise		501,338		1,699,868
Raw materials		14,076,837		19,259,628
Work in process		10,802,422		11,106,710
Supplies		1,455,249		1,404,508
Materials in transit		3,407,786		3,686,062
	₩	<u>46,038,494</u>	₩	<u>44,489,406</u>

Inventories recognized as an expense during the year ended December 31, 2017 amounted to ₩ 29,001,075 thousand (2016: ₩ 272,042,141 thousand). These were included in 'cost of sales'.

32. Borrowings

Details of borrowings as at the end of the reporting periods, are as follows:

<i>(in thousands of Korean won)</i>		Creditor	Latest maturity date	Annual interest rate (%) December 31, 2017	2017	2016
Short-term borrowings	Export bill discount (Nego borrowings)	Kookmin Bank	2018.04.25	6.9	₩ 6,652,929	₩ 4,779,267
		NH Bank	2018.03.23	2.3	2,584,406	820,528
		Deutsche Bank AG	2018.02.26	2.3	137,278	426,402

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Shinhan Bank	2018.03.16	2.2	4,284,539	680,290
Woori Bank	2018.04.25	2.4	21,024,375	9,896,567
KEB Hana Bank	2018.04.25	2.7	15,124,556	4,533,874
Citi Bank	2018.01.08	2.0	145,484	8,400,896
			<u>W 49,953,567</u>	<u>W 29,537,824</u>

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

<i>(in Korean won)</i>	2017		2016	
Beginning balance	W	29,537,824	W	-
Proceeds from borrowings		21,872,461		-
Redemption of borrowings		(118,540)		(19,935,275)
The change in the scope of consolidation		118,540		47,667,016
Translation differences		(1,456,718)		1,806,083
Ending balance	<u>W</u>	<u>49,953,567</u>	<u>W</u>	<u>29,537,824</u>

33. Earnings Per Share

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

<i>(in Korean won, except for number of shares)</i>	2017		2016	
Profit attributable to the ordinary equity holders of Parent Company ¹	W	169,543,617,722	W	261,535,601,727
Weighted-average number of ordinary shares outstanding (in share) ²		91,695,084		91,695,084
Basic earnings per share	<u>W</u>	<u>1,849</u>	<u>W</u>	<u>2,852</u>

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

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

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

34. Business Combination and Transactions with Non-controlling Interests

In January, 2017, the Group acquired 100% shares of FLYING MOTORS CO., LTD. and obtained control over it. The economic effect of taking over FLYING MOTORS CO., LTD. resulted in goodwill of ₩ 661,766 thousand. The

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recognized goodwill will not be deductible for tax purpose. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

<i>(in thousands of Korean won)</i>	Amount	
Consideration transferred	₩	600,000
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		313
Trade receivables		1,863
Property, plant and equipment		21,960
Other receivables		60,000
Trade payables		(1,100)
Other payables		(26,262)
Short-term borrowings		(118,540)
Net identifiable assets acquired		<u>(61,766)</u>
Goodwill		661,766
	₩	<u>600,000</u>

The Group acquired 100% shares of HK Motors Co., Ltd. and obtained control over it to promote efficiency through reorganization of operation division. The economic effect of taking over HK Motors Co., Ltd. resulted in goodwill of ₩ 50,761 thousand. The recognized goodwill will not be deductible for tax purpose. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

<i>(in thousands of Korean won)</i>	Amount	
Consideration transferred	₩	926,430
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		422,846
Trade receivables		150,171
Inventories		393,121
Property, plant and equipment		26,351
Other receivables		152,664
Trade payables		(105,416)
Other payables		(164,068)
Net identifiable assets acquired		<u>875,669</u>
Goodwill		50,761
	₩	<u>926,430</u>

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If HK Motors Co., Ltd. was consolidated on January 1, 2017, the sales and profit attributable to the owners of the Parent Company included in the consolidated statements of comprehensive income would have been increased by ₩ 2,424,483 thousand and ₩514,231 thousand, respectively, for the year ended December 31, 2017.

During 2017, Flying Motors and HK Motors Co., Ltd. purchased total of 5 automobile repairing businesses and assets to expand the business. The economic effect of taking over the businesses resulted in goodwill of ₩ 1,797,568 thousand. The recognized goodwill will not be deductible for tax purpose. Details of the purchase consideration, the assets and liabilities recognized as a result of the acquisition, and fair value of the non-controlling interest at the acquisition date are as follows:

<i>(in thousands of Korean won)</i>	Amount	
Consideration transferred	₩	3,433,571
Recognized amounts of identifiable assets acquired and liabilities assumed		
Inventories		1,090,297
Property, plant and equipment		550,981
Other payables		(5,275)
Net identifiable assets acquired		<u>1,636,003</u>
Goodwill		<u>1,797,568</u>
	₩	<u>3,433,571</u>

35. Events After the Reporting Period

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