

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Separate Financial Statements
December 31, 2020 and 2019

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd)
Index
December 31, 2020 and 2019

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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 & COMPANY CO., LTD. (formerly, Hankook Technology Group Co., Ltd.)

Opinion

We have audited the accompanying separate financial statements of HANKOOK & COMPANY CO., LTD. (formerly, Hankook Technology Group Co., Ltd.) (the Company), which comprise the separate statements of financial position as at December 31, 2020 and 2019, and the separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Company as at December 31, 2020 and 2019, and its separate financial performance and its separate cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

We also have audited, in accordance with Korean Standards on Auditing, the Company's Internal Control over Financial Reporting as of December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*, and our report dated March 22, 2021 expressed an unqualified opinion.

Basis for Opinion

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

Key Audit Matters

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

Impairment assessment of investment in associates

Key Audit Matter

The book value of investment in associates of Hankook Technology Group Co., Ltd. is ₩ 1,979,452,253 thousand as at December 31, 2020. As explained in note 14, the Company has significant influence over Hankook Tire & Technology Co., Ltd. and is measuring at cost.

The Company performed impairment assessment in accordance with Korean IFRS 1036 *Impairment of Assets* since the market value of Hankook Tire & Technology Co., Ltd. is significantly lower than the book value as at December 31, 2020.

We considered as a key audit matter because of the i) existence of indication of impairment loss on investment in associates, ii) significance of unpredictability of estimation that the management used in determining recoverable amount of Hankook Tire & Technology Co., Ltd., and iii) the category causes significant influence to the Company.

How our audit addressed the Key Audit Matter

We performed the following audit procedures for the valuation model, key assumptions and decisions related to the value-in-use valuation. We engaged a specialist in value assessment when performing audit procedures.

- We assessed the capability and related experience (independence and competency) of the expert that the management used in value-in-use valuation.
- We made an inquiry about and assessed valuation model that the management applied.
- We obtained an understanding of the future cash flow of Hankook Tire & Technology Co., Ltd., and tested whether future cash flow estimation is based on the business plan approved by management.
- We assessed the adequacy of the estimation of the past business plan by comparing it with the performance for Hankook Tire & Technology Co., Ltd.
- We assessed the rationality of key assumptions used in valuation model, such as discount rate, growth rate and others by comparing the external benchmark in the same industry and the past financial information of Hankook Tire & Technology Co., Ltd.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 3 to the financial statements of the Company. Note 3 to the financial statements describes management's plans and action taken to resolve uncertainty relating to the impact of Coronavirus disease 2019 (COVID-19) on the Company's productivity and ability to satisfy customer's orders, and to solve these events or circumstances.

Other Matter

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

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

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Keun-young, Chung, Certified Public Accountant.

Seoul, Korea
March 22, 2021

This report is effective as of March 22, 2021, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Separate Statements of Financial Position
December 31, 2020 and 2019

| <i>(in thousands of Korean won)</i> | Notes | 2020 | 2019 |
|---|-------|------------------------|------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 6 | ₩ 3,764,714 | ₩ 37,634,922 |
| Short-term financial assets | 6 | 65,000,000 | 95,000,000 |
| Financial assets at fair value through profit or loss | 5,6,7 | 116,985,289 | 57,361,188 |
| Trade receivables | 6,8 | 16,905,671 | 16,973,994 |
| Other receivables | 6,8 | 2,115,228 | 10,300,080 |
| Other current assets | 9 | 14,272 | 10,312 |
| | | <u>204,785,174</u> | <u>217,280,496</u> |
| Non-current assets | | | |
| Financial assets at fair value through profit or loss | 5,6,7 | 5,870,024 | 6,393,642 |
| Financial assets at fair value through other comprehensive income | 5,6,7 | 10,229,719 | 12,010,948 |
| Other non-current receivables | 6,8 | 11,778,050 | - |
| Property, plant and equipment | 10 | 22,765,925 | 22,333,484 |
| Investment property | 11 | 38,072,125 | 26,927,071 |
| Intangible assets | 12 | 8,379,686 | 9,567,856 |
| Investments in subsidiaries | 14 | 29,934,979 | 56,329,979 |
| Investments in associates | 14 | 1,982,230,355 | 1,982,230,355 |
| Other non-current assets | 9 | 650,018 | 650,018 |
| | | <u>2,109,910,881</u> | <u>2,116,443,353</u> |
| Total assets | | <u>₩ 2,314,696,055</u> | <u>₩ 2,333,723,849</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Short-term borrowings | 13 | ₩ 308,422 | ₩ - |
| Other payables | 6,15 | 14,544,223 | 13,707,482 |
| Current tax liabilities | | 3,286,043 | 5,457,032 |
| Other current liabilities | 16 | 1,196,340 | 420,075 |
| | | <u>19,335,028</u> | <u>19,584,589</u> |
| Non-current liabilities | | | |
| Long-term borrowings | 13 | 6,752,132 | - |
| Net defined benefit liabilities | 17 | 1,142,325 | 3,863,643 |
| Deferred tax liabilities | 27 | 31,786,516 | 57,909,546 |
| Other non-current liabilities | 16 | 106,000 | 73,121 |
| | | <u>39,786,973</u> | <u>61,846,310</u> |
| Total liabilities | | <u>59,122,001</u> | <u>81,430,899</u> |
| Equity | | | |
| Share capital | 1,18 | 46,510,087 | 46,510,087 |
| Other paid-in capital | 19 | 1,291,535,691 | 1,291,535,691 |
| Retained earnings | 20 | 917,657,409 | 913,288,693 |
| Other components of equity | 21 | (129,133) | 958,479 |
| Total equity | | <u>2,255,574,054</u> | <u>2,252,292,950</u> |
| Total liabilities and equity | | <u>₩ 2,314,696,055</u> | <u>₩ 2,333,723,849</u> |

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

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Separate Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019

| <i>(in thousands of Korean won, except per share data)</i> | Notes | 2020 | | 2019 | |
|--|--------------|-------------|--------------|-------------|------------|
| Operating income | 22,28,30 | ₩ | 64,144,787 | ₩ | 82,651,352 |
| Operating expense | 23 | | 25,368,899 | | 24,327,428 |
| Operating profit | | | 38,775,888 | | 58,323,924 |
| Finance income | 24 | | 5,167,590 | | 6,858,316 |
| Finance costs | 24 | | 677,800 | | 4,212 |
| Other non-operating income | 25 | | 2,500,775 | | 2,891,201 |
| Other non-operating expense | 25 | | 30,470,731 | | 3,200,129 |
| Profit before income tax | | | 15,295,722 | | 64,869,100 |
| Income tax expense (benefit) | 27 | | (19,824,545) | | 11,673,163 |
| Profit for the year | | ₩ | 35,120,267 | ₩ | 53,195,937 |
| Other comprehensive income | | | | | |
| Items that will not be reclassified to profit or loss | | | | | |
| Remeasurements of net defined benefit liabilities (assets) | 17 | | 111,791 | | (708,311) |
| Gain on valuation of equity instruments at fair value through other comprehensive income | 21 | | 142,325 | | 732,424 |
| Other comprehensive income for the year, net of tax | | | 254,116 | | 24,113 |
| Total comprehensive income for the year | | ₩ | 35,374,383 | ₩ | 53,220,050 |
| Earnings per share | | | | | |
| Basic and diluted earnings per share | 31 | ₩ | 383 | ₩ | 580 |

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

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Separate Statements of Changes in Equity
Years Ended December 31, 2020 and 2019

| | Notes | <u>Other paid-in capital</u> | | | | | Other components of equity | Total equity |
|---|-------|------------------------------|---|-----------------------|----------------------|--------------------|----------------------------|--------------|
| | | Share capital | Paid-in capital in excess of par value | Treasury shares | Retained earnings | | | |
| <i>(in thousands of Korean won)</i> | | | | | | | | |
| Balance as of January 1, 2019 | | ₩ 46,510,087 | ₩ 1,302,628,300 | ₩ (11,092,609) | ₩ 888,309,592 | ₩ 226,055 | ₩ 2,226,581,424 | |
| Total comprehensive income for the year : | | | | | 52,487,626 | 732,424 | 53,220,050 | |
| Profit for the year | | - | - | - | 53,195,937 | - | 53,195,937 | |
| Remeasurements of net defined benefit liabilities (assets) | 17 | - | - | - | (708,311) | - | (708,311) | |
| Gain on valuation of equity instruments at fair value through other comprehensive income | 21 | - | - | - | - | 732,424 | 732,424 | |
| Transactions with owners : | | | | | | | | |
| Annual dividends | | - | - | - | (27,508,525) | - | (27,508,525) | |
| Balance at December 31, 2019 | | <u>₩ 46,510,087</u> | <u>₩ 1,302,628,300</u> | <u>₩ (11,092,609)</u> | <u>₩ 913,288,693</u> | <u>₩ 958,479</u> | <u>₩ 2,252,292,950</u> | |
| Balance as of January 1, 2020 | | <u>₩ 46,510,087</u> | <u>₩ 1,302,628,300</u> | <u>₩ (11,092,609)</u> | <u>₩ 913,288,693</u> | <u>₩ 958,479</u> | <u>₩ 2,252,292,950</u> | |
| Total comprehensive income for the year : | | | | | 36,461,995 | (1,087,612) | 35,374,383 | |
| Profit for the year | | - | - | - | 35,120,267 | - | 35,120,267 | |
| Remeasurements of net defined benefit liabilities (assets) | 17 | - | - | - | 111,791 | - | 111,791 | |
| Gain (loss) on valuation of equity instruments at fair value through other comprehensive income | 21 | - | - | - | 1,229,937 | (1,087,612) | 142,325 | |
| Transactions with owners : | | | | | | | | |
| Annual dividends | 20 | - | - | - | (32,093,279) | - | (32,093,279) | |
| Balance at December 31, 2020 | | <u>₩ 46,510,087</u> | <u>₩ 1,302,628,300</u> | <u>₩ (11,092,609)</u> | <u>₩ 917,657,409</u> | <u>₩ (129,133)</u> | <u>₩ 2,255,574,054</u> | |

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

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Separate Statements of Cash Flows
Years Ended December 31, 2020 and 2019

(in thousands of Korean won)

| | Notes | 2020 | 2019 |
|---|-------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Cash generated from operating activities | | | |
| Profit for the year | | ₩ 35,120,267 | ₩ 53,195,937 |
| Adjustments | 26 | (15,465,548) | (10,699,984) |
| Changes in operating assets and liabilities | 26 | (3,828,593) | 2,531,234 |
| | | 15,826,126 | 45,027,187 |
| Interest received | | 3,662,704 | 4,117,476 |
| Interest paid | | (156,895) | - |
| Dividends received | | 23,073,118 | 18,391,361 |
| Income tax paid | | (8,550,603) | (12,540,114) |
| Net cash inflow from operating activities | | <u>33,854,450</u> | <u>54,995,910</u> |
| Cash flows from investing activities | | | |
| Payments for short-term financial assets | | (65,000,000) | (160,000,000) |
| Proceeds from sale of short-term financial assets | | 95,000,000 | 135,000,000 |
| Proceeds from long-term financial assets | | - | 10,000,000 |
| Proceeds from sale of debt instruments at fair value through profit or loss | | 51,723,444 | 33,732,523 |
| Payment of short-term loans | | - | (4,200,000) |
| Repayments of short-term loans | | 4,200,000 | - |
| Proceeds from equity instruments at fair value through profit or loss | 7 | 3,790 | - |
| Payment for debt instruments at fair value through profit or loss | 7 | (110,000,000) | (20,000,000) |
| Proceeds from sale of equity instruments at fair value through other comprehensive income | | 1,968,993 | - |
| Payments for property, plant and equipment | 10 | (84,000) | (34,200) |
| Payments for intangible assets | 12 | (600,743) | (1,025,366) |
| Proceeds from intangible assets | 12 | 178,000 | - |
| Increase in leasehold deposits provided | | (9,270,000) | - |
| Payments for investments in subsidiaries | 14 | - | (26,100,000) |
| Payments for investments in associates | 14 | - | (17,838,354) |
| Net cash outflow from investing activities | | <u>(31,880,516)</u> | <u>(50,465,397)</u> |
| Cash flows from financing activities | | | |
| Dividends payment | 20 | (32,093,279) | (27,508,525) |
| Repayments of lease liabilities | 13 | (180,618) | - |
| Decrease in leasehold deposits received | | (3,570,245) | - |
| Net cash outflow from financing activities | | <u>(35,844,142)</u> | <u>(27,508,525)</u> |
| Net decrease in cash and cash equivalents | | <u>(33,870,208)</u> | <u>(22,978,012)</u> |
| Cash and cash equivalents at the beginning of the financial year | | 37,634,922 | 60,612,931 |
| Cash and cash equivalents at the end of the year | | <u>₩ 3,764,714</u> | <u>₩ 37,634,922</u> |

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

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Notes to the Separate Financial Statements
December 31, 2020 and 2019

1. General Information

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

On February 28, 2020, the Board of Directors resolved to change its corporate name from Hankook Tire Worldwide Co., Ltd. to Hankook Technology Group Co., Ltd. Following the approval of the shareholders' meeting on March 28, 2020, the Company changed its corporate name on May 8, 2020.

In addition, on November 13, 2020, the Board of Directors resolved to change its corporate name from Hankook Technology Group Co., Ltd. to HANKOOK & COMPANY CO., LTD. Following the approval of the shareholders' meeting on March 28, 2020, the Company changed its corporate name.

Through the several capital increases, transfers of convertible notes and the spin-off, the authorized number of the Company's ordinary shares are 250 million with a par value of ₩500 per share as at December 31, 2020. The share capital of the Company is ₩46,510,087 thousand (ordinary shares: 93,020,173) and the Company's shareholders as at the end of the reporting period, are as follows:

| | 2020 | | 2019 | |
|-----------------|-------------------|-----------------------------|-------------------|-----------------------------|
| | Number of shares | Percentage of ownership (%) | Number of shares | Percentage of ownership (%) |
| Yang Rai Cho | - | - | 21,942,693 | 23.6 |
| Hyun Shick Cho | 17,974,870 | 19.3 | 17,974,870 | 19.3 |
| Hyun Bum Cho | 39,901,871 | 42.9 | 17,959,178 | 19.3 |
| Treasury shares | 1,325,090 | 1.4 | 1,325,090 | 1.4 |
| Others | 33,818,342 | 36.4 | 33,818,342 | 36.4 |
| | <u>93,020,173</u> | <u>100.0</u> | <u>93,020,173</u> | <u>100.0</u> |

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Notes to the Separate Financial Statements
December 31, 2020 and 2019

2. Significant Accounting Policies

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

2.1 Basis of Preparation

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

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

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

The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less costs to sell, and
- defined benefit pension plans – plan assets measured at fair value.

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

2.2 Changes in Accounting Policies and Disclosures

2.2.1 New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2020.

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(a) Amendments to Korean IFRS 1001 Presentation of Financial Statements and Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors – Definition of Material

The amendments clarify the explanation of the definition of material and amended Korean IFRS 1001 and Korean IFRS 1008 in accordance with the clarified definitions. Materiality is assessed by reference to omission or misstatement of material information as well as effects of immaterial information, and to the nature of the users when determining the information to be disclosed by the Company.

(b) Amendments to Korean IFRS 1103 Business Combination – Definition of a Business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs and the definition of output excludes the returns in the form of lower costs and other economic benefits. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, an entity may elect to apply an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments do not have a significant impact on the financial statements.

(c) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement and Korean IFRS 1107 Financial Instruments: Disclosure – Interest Rate Benchmark Reform

The amendments allow to apply the exceptions when forward-looking analysis is performed in relation the application of hedge accounting while uncertainties arising from interest rate benchmark reform exist. The exceptions require the Company assumes that the interest rate benchmark on which the hedged items and the hedging instruments are based on is not altered as a result of interest rate benchmark reform, when determining whether the expected cash flows are highly probable, whether an economic relationship between the hedged item and the hedging instrument exists, and when assessing the hedging relationship is highly effective. The amendments do not have a significant impact on the financial statements.

2.2.2 New standards and interpretations not yet adopted by the Company

The following new accounting standards and interpretations have been published that are not mandatory for December 31, 2020 reporting periods and have not been early adopted by the Company.

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Notes to the Separate Financial Statements
December 31, 2020 and 2019

(a) Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19 - Related Rent Exemption, Concessions, Suspension

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification, and the amounts recognized in profit or loss as a result of applying this exemption should be disclosed. The amendments should be applied for annual periods beginning on or after June 1, 2020, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(b) Amendments to Korean IFRS 1109 Financial Instruments, Korean IFRS 1039 Financial Instruments: Recognition and Measurement, Korean IFRS 1107 Financial Instruments: Disclosure, Korean IFRS 1104 Insurance Contracts and Korean IFRS 1116 Lease – Interest Rate Benchmark Reform

In relation to interest rate benchmark reform, the amendments provide exceptions including adjust effective interest rate instead of book amounts when interest rate benchmark of financial instruments at amortized costs is replaced, and apply hedge accounting without discontinuance although the interest rate benchmark is replaced in hedging relationship. The amendments should be applied for annual periods beginning on or after January 1, 2021, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(c) Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities qualify for recognition in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also confirm that contingent assets should not be recognized at the acquisition date. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(d) Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

HANKOOK & COMPANY CO., LTD.
(formerly, Hankook Technology Group Co., Ltd.)
Notes to the Separate Financial Statements
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(e) Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts : Cost of Fulfilling a Contract

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The amendments should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(f) Annual improvements to Korean IFRS 2018-2020

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1116 *Leases* – Lease incentives
- Korean IFRS 1041 *Agriculture* – Measuring fair value

(g) Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability include the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

2.3 Subsidiaries and Associates

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

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2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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 equity instrument at fair value through other comprehensive income are recognized in other comprehensive income.

2.5 Financial Assets

(a) Classification

The Company classifies its financial assets in the following measurement categories:

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

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

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

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

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(b) Measurement

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

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

A. Debt instruments

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

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

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B. Equity instruments

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

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

(c) Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and lease receivables, the Company applies the simplified approach, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables. (Note 32 provides more detail of how the Company determines there has been a significant increase in credit risk.)

(d) Recognition and Derecognition

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

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

(e) Offsetting of financial instruments

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

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2.6 Derivative Instruments

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

2.7 Property, Plant and Equipment

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

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

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

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

2.8 Intangible Assets

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

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

| | Useful life |
|----------------------------|--------------------|
| Industrial property rights | 5 years |

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2.9 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. An investment property is measured initially at its cost. An investment property is measured after initial measurement at depreciated cost (less any accumulated impairment losses). After recognition as an asset, investment property is carried at cost less accumulated depreciation and impairment losses. The Company depreciates investment properties, except for land, using the straight-line method over their useful lives for 20 to 40 years.

2.10 Impairment of Non-financial Assets

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

2.11 Financial Liabilities

(a) Classification and measurement

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

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

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

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(b) Derecognition

Financial liabilities are removed from the statement of financial position when it is extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

2.12 Current and Deferred Tax

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

The current income tax expense is measured at the amount expected to be paid to the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Company recognizes current income tax on the basis of amounts expected to be paid to the tax authorities.

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

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

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

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

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2.13 Employee Benefits

(a) Post-employment benefits

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

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

(b) Other long-term employee benefits

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

2.14 Revenue Recognition

(a) Rendering of services including Shared Service

The Company is providing supporting service to affiliates. If the Company has the right to receive the amount for the value provided to the customer for the performance completed, the Company recognizes the amount of right for the service provided. This is because the Company can use practical expedient in recognizing the amount of right to receive.

(b) Royalty income

Royalty income is the consideration that provides a license of intellectual property, and is recognized when a later event occurs between fulfillment of the performance obligation to which the consideration is allocated and the subsequent sale or use.

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(c) Dividend income

The company conducts investment activities such as investment in subsidiaries. The company recognizes dividend yield at the time it declares dividends.

(e) Rental income

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

2.15 Leases

(a) Lessor

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income.

The respective leased assets are included in the statement of financial position based on their nature.

(b) Lessee

The Company leases various offices and cars. Lease contracts are typically made for fixed periods of 3 to 8 years but may have extension options.

Contracts may contain both lease and non-lease payments. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Company determines the lease term as the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

When the lessee and the lessor each has the right to terminate the lease without permission from the other party, the Company should consider a termination penalty in determining the period for which the contract is enforceable.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

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Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Company (the lessee) under residual value guarantees
- The exercise price of a purchase option if the Company (the lessee) is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Company (the lessee) exercising that option

Lease liability measurement also include payments to be made in option periods if the lessee is reasonably certain to exercise an option to extend the lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by an entity which does not have recent third-party financing, and
- makes adjustments specific to the lease, for example term, country, currency and security.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Company uses that rate as a starting point to determine the incremental borrowing rate.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

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Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

2.16 Segment Reporting

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

2.17 Approval of Issuance of the Financial Statements

The separate financial statements 2020 were approved for issue by the Board of Directors on March 12, 2021 and are subject to change with the approval of shareholders at their Annual General Meeting.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

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The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

During 2020, the spread of Coronavirus disease 2019 (“COVID-19”) has a material impact on the global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Company.

Significant accounting estimates and assumptions applied in the preparation of the financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Company’s business, financial position and financial performance cannot presently be determined.

(a) Income taxes

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

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Company is liable to pay additional income tax calculated based on the tax laws. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Company’s income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects (Note 27).

The Company recognizes a deferred tax liability all taxable temporary differences associated with investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The largest shareholder of the Company has changed during the year ended December 31, 2020, and the Company changed the estimate of deferred tax liabilities considering the disposal and control over liquidation of investments in associates. The resulting effect was recognized in profit or loss.

(b) Fair value of financial instruments

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

(c) Impairment of financial assets

The provision for impairment for financial assets are based on assumptions about risk of default

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and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period (Note 32).

(d) Net defined benefit liability

The present value of net defined benefit liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions including the discount rate (Note 17).

(e) Lease

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated) (Note 13).

4. Financial Risk Management

(a) Capital Management

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

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

| <i>(in thousands of Korean won)</i> | | 2020 | | 2019 |
|-------------------------------------|---|---------------|---|---------------|
| Total liabilities | ₩ | 59,122,002 | ₩ | 81,430,899 |
| Total equity | | 2,255,574,054 | | 2,252,292,950 |
| Debt ratio | | 2.6% | | 3.6% |

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

(c) Financial risk management

1) Purpose of financial risk management

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

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

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

2) Market risk

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

a) Foreign currency risk management

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

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

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

| <i>(in thousands of Korean won)</i> | | 2020 | | 2019 |
|-------------------------------------|---|-------------|---|-------------|
| USD | ₩ | (2,838) | ₩ | (3,020) |
| EUR | | (2,161) | | (2,232) |
| Others | | (2,137) | | (2,164) |

b) Interest rate risk

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

c) Other price risks

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

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

If the price of financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss changed by 5% with all other variables held constant, other comprehensive income would not be increased/decreased (2019: ₩ 84,378 thousand) and Profit before income tax would be increased/decreased by ₩ 293,501 thousand (2019: ₩ 319,682 thousand) for the year ended December 31, 2020.

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

3) Liquidity risk management

The Company has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Board of Directors has a full responsibility of the liquidity risk management. The Company manages liquidity risk by maintaining adequate reserves and credit facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

a) Details of liquidity risk

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

| <i>(in thousands of Korean won)</i> | | 2020 | | | |
|-------------------------------------|-------------------------------|------------------------|------------------|------------------|----------------------|
| Book amount | Contractual cash flows | Residual amount | | | |
| | | Within a year | 1-2 years | 2-5 years | After 5 years |

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| | | | | | | | | | |
|-------------------------------|---------------------|---------------------|---------------------|----------|----------------|----------|------------------|----------|------------------|
| Other payables | ₩ 14,544,223 | ₩ 14,544,223 | ₩ 14,544,223 | ₩ | - | ₩ | - | ₩ | - |
| Current lease liabilities | 308,422 | 523,810 | 523,810 | | - | | - | | - |
| Non-current lease liabilities | 6,752,132 | 8,810,022 | - | | 523,810 | | 1,527,112 | | 6,759,100 |
| | <u>₩ 21,604,777</u> | <u>₩ 23,878,056</u> | <u>₩ 15,068,033</u> | <u>₩</u> | <u>523,810</u> | <u>₩</u> | <u>1,527,112</u> | <u>₩</u> | <u>6,759,100</u> |

(in thousands of Korean won)

2019

| | Book amount | Contractual cash flows | Residual amount | | | | | | |
|----------------|---------------------|------------------------|---------------------|-----------|-----------|---------------|----------|----------|----------|
| | | | Within a year | 1-2 years | 2-5 years | After 5 years | | | |
| Other payables | ₩ 13,707,482 | ₩ 13,707,482 | ₩ 13,707,482 | ₩ | - | ₩ | - | ₩ | - |
| | <u>₩ 13,707,482</u> | <u>₩ 13,707,482</u> | <u>₩ 13,707,482</u> | <u>₩</u> | <u>-</u> | <u>₩</u> | <u>-</u> | <u>₩</u> | <u>-</u> |

5. Fair value

(a) Financial instruments measured at fair value

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

(in thousands of Korean won)

| | 2020 | | 2019 | |
|---|----------------------|----------------------|---------------------|---------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets: | | | | |
| Debt instruments at fair value through profit or loss (current) | ₩ 116,985,289 | ₩ 116,985,289 | ₩ 57,361,189 | ₩ 57,361,189 |
| Equity instruments at fair value through profit or loss (non-current) | 5,870,024 | 5,870,024 | 6,393,641 | 6,393,641 |
| Equity instruments at fair value through other comprehensive income (non-current) | 10,229,719 | 10,229,719 | 12,010,948 | 12,010,948 |
| | <u>₩ 133,085,032</u> | <u>₩ 133,085,032</u> | <u>₩ 75,765,778</u> | <u>₩ 75,765,778</u> |

(b) Fair Value Hierarchy

Items that are measured 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

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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 period, are as follows:

(in thousands of Korean won)

| | 2020 | | | |
|---|--------------------|----------------------|------------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Equity instruments at fair value through other comprehensive income | ₩ - | ₩ 10,015,200 | ₩ 214,519 | ₩ 10,229,719 |
| Debt instruments at fair value through profit or loss | - | 116,985,289 | - | 116,985,289 |
| Equity instruments at fair value through profit or loss | 5,870,024 | - | - | 5,870,024 |
| | <u>₩ 5,870,024</u> | <u>₩ 127,000,489</u> | <u>₩ 214,519</u> | <u>₩ 133,085,032</u> |

(in thousands of Korean won)

| | 2019 | | | |
|---|--------------------|---------------------|------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Equity instruments at fair value through other comprehensive income | ₩ 1,687,569 | ₩ 10,103,300 | ₩ 220,079 | ₩ 12,010,948 |
| Debt instruments at fair value through profit or loss | - | 57,361,189 | - | 57,361,189 |
| Equity instruments at fair value through profit or loss | 6,393,641 | - | - | 6,393,641 |
| | <u>₩ 8,081,210</u> | <u>₩ 67,464,489</u> | <u>₩ 220,079</u> | <u>₩ 75,765,778</u> |

(c) Transfers Between Fair Value Hierarchy Levels of Recurring Fair Value Measurements

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

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

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(d) Valuation Techniques and the Inputs

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

(In thousands of Korean won)

| | | 2020 | | | |
|--|-------------------|--------------|-----------------------------|------------------------------------|--|
| | Fair value | Level | Valuation techniques | Inputs | |
| Equity instruments at fair value through other comprehensive income | | | | | |
| Hybrid capital securities (consol bond) | ₩ 10,015,200 | 2 | Discounted cash flows model | Credit risk adjusted discount rate | |
| Non-listed shares | 214,519 | 3 | Transaction cost | | |
| Debt instruments at fair value through profit or loss | | | | | |
| Beneficiary certificates | 116,985,289 | 2 | Discounted cash flows model | Credit risk adjusted discount rate | |

(In thousands of Korean won)

| | | 2019 | | | |
|--|-------------------|--------------|-----------------------------|--|--|
| | Fair value | Level | Valuation techniques | Inputs | |
| Equity instruments at fair value through other comprehensive income | | | | | |
| Hybrid capital securities (consol bond) | ₩ 10,103,300 | 2 | Discounted cash flows model | Credit risk adjusted discount rate | |
| Non-listed shares | 220,079 | 3 | Transaction cost | | |
| Debt instruments at fair value through profit or loss | | | | | |
| Derivative linked securities | 6,595,414 | 2 | Option pricing model | Underlying assets price, Credit risk adjusted discount rate, Volatility of underlying assets | |
| Beneficiary certificates | 50,765,775 | 2 | Discounted cash flows model | Credit risk adjusted discount rate | |

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6. Financial instruments

Carrying amounts of financial assets and liabilities by category as at December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

| | | 2020 | 2019 |
|------------------------------------|---|----------------------|----------------------|
| Financial assets: | | | |
| Financial assets at fair value | Financial assets at fair value through profit or loss | ₩ 122,855,313 | ₩ 63,754,830 |
| | Financial assets at fair value through other comprehensive income | 10,229,719 | 12,010,948 |
| Financial assets at amortized cost | Cash and cash equivalents | 3,764,714 | 37,634,922 |
| | Short-term financial assets | 65,000,000 | 95,000,000 |
| | Trade receivables | 16,905,671 | 16,973,995 |
| | Other receivables | 2,115,228 | 10,300,080 |
| | Other non-current receivables | 11,778,050 | - |
| | | <u>₩ 232,648,695</u> | <u>₩ 235,674,775</u> |

(in thousands of Korean won)

| | | 2020 | 2019 |
|---|---------------------------------|---------------------|---------------------|
| Financial liabilities: | | | |
| Financial liabilities at amortized cost | Other payables | ₩ 14,544,223 | ₩ 13,707,482 |
| Other financial liabilities | Lease liabilities (current) | 308,422 | - |
| | Lease liabilities (non-current) | 6,752,132 | - |
| | | <u>₩ 21,604,777</u> | <u>₩ 13,707,482</u> |

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Net gains or losses on each category of financial instruments for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | <u>2020</u> | | <u>2019</u> | |
|---|-------------|------------------|-------------|------------------|
| Financial assets measured at amortized cost | | | | |
| Interest income | ₩ | 1,754,755 | ₩ | 1,866,589 |
| Gains (losses) on foreign currency transaction | | 1,393 | | (627) |
| Reversal of impairment loss | | (800,000) | | - |
| Financial liabilities measured at amortized cost | | | | |
| Gains (losses) on foreign currency transaction | | 2,488 | | (1,751) |
| Gains (losses) on foreign currency translation | | 270 | | (98) |
| Equity instruments at fair value through other comprehensive income | | | | |
| Gains on valuation (other comprehensive income, net of tax) | | 142,325 | | 732,424 |
| Interest income | | 327,004 | | 327,000 |
| Debt instruments at fair value through profit or loss | | | | |
| Gains on valuation | | 1,219,515 | | 800,743 |
| Gains on disposal | | 128,030 | | 195,012 |
| Interest income | | 1,736,604 | | 2,392,249 |
| Equity instruments at fair value through profit or loss | | | | |
| Gains (losses) on valuation | | (517,952) | | 1,273,216 |
| Losses on disposal | | (1,876) | | - |
| Other financial liabilities | | | | |
| Interest expenses | | (156,895) | | - |
| | ₩ | <u>3,835,661</u> | ₩ | <u>7,584,757</u> |

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7. Financial Assets

7.1 Financial assets at fair value through profit or loss

Details of financial assets through profit or loss at the end of the reporting periods are as follows:

| <i>(in thousands of Korean won)</i> | <u>2020</u> | <u>2019</u> |
|-------------------------------------|----------------------|---------------------|
| Current | | |
| Derivative-linked securities | ₩ - | ₩ 6,595,414 |
| Beneficiary certificates | 116,985,289 | 50,765,775 |
| Non-current | | |
| Equity securities | 5,870,024 | 6,393,641 |
| | <u>₩ 122,855,313</u> | <u>₩ 63,754,830</u> |

Amounts recognized in profit or loss for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | <u>2020</u> | <u>2019</u> |
|--|--------------------|--------------------|
| Gain (loss) from equity instruments at fair value through profit or loss | ₩ (519,828) | ₩ 1,273,216 |
| Gain from debt instruments at fair value through profit or loss | 3,084,149 | 3,388,004 |
| | <u>₩ 2,564,321</u> | <u>₩ 4,661,220</u> |

Changes in financial assets through profit or loss for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | <u>2020</u> | | | | |
|-------------------------------------|--------------------------|----------------------|-----------------------|------------------|-----------------------|
| | Beginning balance | Acquisition | Disposals | Valuation | Ending balance |
| Debt instruments | | | | | |
| Derivative-linked securities | ₩ 6,595,414 | ₩ 5,000,000 | ₩ (11,595,414) | ₩ - | ₩ - |
| Beneficiary certificates | 50,765,775 | 105,000,000 | (40,000,000) | 1,219,514 | 116,985,289 |
| Equity instruments | | | | | |
| Equity securities | 6,393,641 | - | (5,665) | (517,952) | 5,870,024 |
| | <u>₩ 63,754,830</u> | <u>₩ 110,000,000</u> | <u>₩ (51,601,079)</u> | <u>₩ 701,562</u> | <u>₩ 122,855,313</u> |

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(in thousands of Korean won)

| | 2019 | | | | |
|------------------------------|---------------------|---------------------|-----------------------|--------------------|---------------------|
| | Beginning balance | Acquisition | Disposals | Valuation | Ending balance |
| Debt instruments | | | | | |
| Derivative-linked securities | ₩ 20,037,512 | ₩ 10,000,000 | ₩ (23,537,512) | ₩ 95,414 | ₩ 6,595,414 |
| Beneficiary certificates | 50,060,445 | 10,000,000 | (10,000,000) | 705,330 | 50,765,775 |
| Equity instruments | | | | | |
| Equity securities | 5,120,425 | - | - | 1,273,216 | 6,393,641 |
| | <u>₩ 75,218,382</u> | <u>₩ 20,000,000</u> | <u>₩ (33,537,512)</u> | <u>₩ 2,073,960</u> | <u>₩ 63,754,830</u> |

7.2 Financial assets at fair value through other comprehensive income

(a) Details of financial assets at fair value through other comprehensive income at the end of the reporting periods are as follows:

(in thousands of Korean won)

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Non-current | | |
| Equity securities and others | ₩ 214,519 | ₩ 1,907,648 |
| Hybrid capital securities (consol bond) | 10,015,200 | 10,103,300 |
| | <u>₩ 10,229,719</u> | <u>₩ 12,010,948</u> |

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

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

As at December 31, 2020 and 2019, there are no debt investments at fair value through other comprehensive income. Upon disposal of the debt investments, any balance within the accumulated other comprehensive income for these debt investments is reclassified to profit or loss.

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(c) Changes in Financial assets at fair value through other comprehensive income for the years ended December 31, 2020, are as follows:

(in thousands of Korean won)

| | 2020 | | | |
|--|--|------------------|----------------------|---------------------------|
| | Beginning balance¹ | Valuation | Disposals | Ending balance |
| Equity instruments | | | | |
| Equity securities and others | ₩ 1,907,648 | ₩ 275,864 | ₩ (1,968,993) | ₩ 214,519 |
| Hybrid capital securities (consol bond) | 10,103,300 | (88,100) | - | 10,015,200 |
| | <u>₩ 12,010,948</u> | <u>₩ 187,764</u> | <u>₩ (1,968,993)</u> | <u>₩ 10,229,719</u> |

(in thousands of Korean won)

| | 2019 | | | |
|--|------------------------------|------------------|------------------|---------------------------|
| | Beginning balance | Valuation | Disposals | Ending balance |
| Equity instruments | | | | |
| Equity securities and others | ₩ 1,103,889 | ₩ 803,759 | - | ₩ 1,907,648 |
| Hybrid capital securities (consol bond) | 9,940,800 | 162,500 | - | 10,103,300 |
| | <u>₩ 11,044,689</u> | <u>₩ 966,259</u> | <u>₩ -</u> | <u>₩ 12,010,948</u> |

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8. Trade and Other Receivables

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

(in thousands of Korean won)

| | 2020 | | |
|-----------------------------|---------------------|---|---------------------|
| | Gross amount | Less: Provision for impairment | Net amount |
| Current | | | |
| Trade receivables | ₩ 16,905,671 | ₩ - | ₩ 16,905,671 |
| Other receivables | | | |
| Non-trade receivables | 40,969 | - | 40,969 |
| Accrued income | 2,068,259 | - | 2,068,259 |
| Deposits | 6,000 | - | 6,000 |
| Short-term loans | - | - | - |
| | <u>2,115,228</u> | <u>-</u> | <u>2,115,228</u> |
| | <u>₩ 19,020,899</u> | <u>₩ -</u> | <u>₩ 19,020,899</u> |
| Non-current | | | |
| Long-term loan ¹ | ₩ 4,000,000 | ₩ (800,000) | ₩ 3,200,000 |
| Leasehold deposits provided | 8,578,050 | - | 8,578,050 |
| | <u>₩ 12,578,050</u> | <u>₩ (800,000)</u> | <u>₩ 11,778,050</u> |

(in thousands of Korean won)

| | 2019 | | |
|-----------------------------|---------------------|---|---------------------|
| | Gross amount | Less: Provision for impairment | Net amount |
| Current | | | |
| Trade receivables | ₩ 16,973,995 | ₩ - | ₩ 16,973,995 |
| Other receivables | | | |
| Non-trade receivables | 37,186 | - | 37,186 |
| Accrued income | 2,060,694 | - | 2,060,694 |
| Deposits | 2,200 | - | 2,200 |
| Short-term loans | 8,200,000 | - | 8,200,000 |
| | <u>10,300,080</u> | <u>-</u> | <u>10,300,080</u> |
| | <u>₩ 27,274,075</u> | <u>₩ -</u> | <u>₩ 27,274,075</u> |
| Non-current | | | |
| Long-term loan ¹ | ₩ - | ₩ - | ₩ - |
| Leasehold deposits provided | - | - | - |
| | <u>₩ -</u> | <u>₩ -</u> | <u>₩ -</u> |

¹ The Company recognized provision for impairment on long-term loans amounting to ₩ 800,000 thousand for the year ended December 31, 2020. The Company is provided with 51,111 shares of RBK Holdings Co., Ltd. and 576,895 shares of FRIXA CO.,LTD., a subsidiary of RBK Holdings Co., Ltd., as collateral in relation to long-term loans.

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

9. Other Assets

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

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|----------|-------------|----------|-------------|
| | Current | Non-current | Current | Non-current |
| Prepaid expenses | ₩ 14,273 | ₩ - | ₩ 10,312 | ₩ - |
| Others | - | 650,018 | - | 650,018 |
| | ₩ 14,273 | ₩ 650,018 | ₩ 10,312 | ₩ 650,018 |

10. Property, Plant and Equipment

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

| <i>(in thousands of Korean won)</i> | 2020 | | | |
|-------------------------------------|--------------|--------------------------|-----------------------------|--------------|
| | Cost | Accumulated depreciation | Accumulated impairment loss | Book amount |
| Land | ₩ 3,706,818 | ₩ - | ₩ - | ₩ 3,706,818 |
| Buildings | 18,456,620 | (7,458,347) | - | 10,998,273 |
| Structures | 515,082 | (251,436) | - | 263,646 |
| Vehicles | 200,354 | (158,614) | - | 41,740 |
| Supplies | 975,893 | (862,702) | - | 113,191 |
| Construction in progress | 301,888 | - | (301,888) | - |
| Right-of-use assets | 8,076,865 | (434,609) | - | 7,642,256 |
| | ₩ 32,233,520 | ₩ (9,165,708) | ₩ (301,888) | ₩ 22,765,924 |

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(in thousands of Korean won)

| | 2019 | | | |
|--------------------------|---------------------|--------------------------|-----------------------------|---------------------|
| | Cost | Accumulated depreciation | Accumulated impairment loss | Book amount |
| Land | ₩ 7,918,741 | ₩ - | ₩ - | ₩ 7,918,741 |
| Buildings | 25,308,592 | (11,346,542) | - | 13,962,050 |
| Structures | 521,000 | (241,327) | - | 279,673 |
| Vehicles | 200,354 | (108,525) | - | 91,829 |
| Supplies | 894,093 | (812,902) | - | 81,191 |
| Construction in progress | 301,888 | - | (301,888) | - |
| | <u>₩ 35,144,668</u> | <u>₩ (12,509,296)</u> | <u>₩ (301,888)</u> | <u>₩ 22,333,484</u> |

Changes in property, plant and equipment for the years ended December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

| | 2020 | | | | | | Closing net book amount |
|---------------------|-------------------------|--------------------|-------------------|----------------------|-----------------------|--------------------|-------------------------|
| | Opening net book amount | Acquisition | Disposal | Depreciation | Transfer ¹ | Others | |
| Land | ₩ 7,918,741 | ₩ - | ₩ - | ₩ - | ₩ (4,211,923) | ₩ - | ₩ 3,706,818 |
| Buildings | 13,962,050 | - | - | (527,840) | (2,435,937) | - | 10,998,273 |
| Structures | 279,673 | - | (3) | (16,024) | - | - | 263,646 |
| Vehicles | 91,829 | - | - | (50,089) | - | - | 41,740 |
| Supplies | 81,191 | 84,000 | (1) | (51,999) | - | - | 113,191 |
| Right-of-use assets | - | 4,755,577 | (16,761) | (439,020) | - | 3,342,460 | 7,642,256 |
| | <u>₩ 22,333,484</u> | <u>₩ 4,839,577</u> | <u>₩ (16,765)</u> | <u>₩ (1,084,972)</u> | <u>₩ (6,647,860)</u> | <u>₩ 3,342,460</u> | <u>₩ 22,765,924</u> |

¹ Consists of ₩ 6,647,860 thousand, a transfer from property, plant and equipment to investment properties.

(in thousands of Korean won)

| | 2019 | | | | | Closing net book amount |
|------------|-------------------------|-----------------|-------------------|--------------------|-----------------------|-------------------------|
| | Opening net book amount | Acquisition | Disposal | Depreciation | Transfer ¹ | |
| Land | ₩ 7,803,471 | ₩ - | ₩ - | ₩ - | ₩ 115,270 | ₩ 7,918,741 |
| Buildings | 14,536,888 | - | (11,620) | (628,154) | 64,936 | 13,962,050 |
| Structures | 295,697 | - | - | (16,024) | - | 279,673 |
| Vehicles | 141,917 | - | - | (50,088) | - | 91,829 |
| Supplies | 97,393 | 34,200 | - | (50,402) | - | 81,191 |
| | <u>₩ 22,875,366</u> | <u>₩ 34,200</u> | <u>₩ (11,620)</u> | <u>₩ (744,668)</u> | <u>₩ 180,206</u> | <u>₩ 22,333,484</u> |

¹ Consists of ₩ 180,206 thousand, a transfer from investment properties to property, plant and equipment.

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11. Investment Properties

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

(in thousands of Korean won)

| | 2020 | | | | | |
|--------------------------|------|------------|--------------------------|--------------|-------------|------------|
| | Cost | | Accumulated depreciation | | Book amount | |
| Land | ₩ | 22,502,560 | ₩ | - | ₩ | 22,502,560 |
| Buildings | | 34,943,608 | | (24,752,243) | | 10,191,365 |
| Construction in progress | | 5,378,200 | | - | | 5,378,200 |
| | ₩ | 62,824,368 | ₩ | (24,752,243) | ₩ | 38,072,125 |

(in thousands of Korean won)

| | 2019 | | | | | |
|--------------------------|------|------------|--------------------------|--------------|-------------|------------|
| | Cost | | Accumulated depreciation | | Book amount | |
| Land | ₩ | 18,290,638 | ₩ | - | ₩ | 18,290,638 |
| Buildings | | 28,091,635 | | (19,455,202) | | 8,636,433 |
| Construction in progress | | - | | - | | - |
| | ₩ | 46,382,275 | ₩ | (19,455,202) | ₩ | 26,927,071 |

Changes in investment properties for the years ended December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

| | 2020 | | | | | |
|--------------------------|-------------------|-------------|--------------|-----------------------|----------------|--|
| | Beginning balance | Acquisition | Depreciation | Transfer ¹ | Ending balance | |
| Land | ₩ 18,290,638 | ₩ - | ₩ - | ₩ 4,211,922 | ₩ 22,502,560 | |
| Buildings | 8,636,433 | - | (881,006) | 2,435,938 | 10,191,365 | |
| Construction in progress | - | 5,378,200 | - | - | 5,378,200 | |
| | ₩ 26,927,071 | ₩ 5,378,200 | ₩ (881,006) | ₩ 6,647,860 | ₩ 38,072,125 | |

¹ Consists of ₩ 6,647,860 thousand, a transfer from property, plant and equipment to investment properties.

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(in thousands of Korean won)

| | 2019 | | | |
|-----------|------------------------------|---------------------|-----------------------------|---------------------------|
| | Beginning balance | Depreciation | Transfer¹ | Ending balance |
| Land | ₩ 18,405,908 | ₩ - | ₩ (115,270) | ₩ 18,290,638 |
| Buildings | 9,483,233 | (781,864) | (64,936) | 8,636,433 |
| | <u>₩ 27,889,141</u> | <u>₩ (781,864)</u> | <u>₩ (180,206)</u> | <u>₩ 26,927,071</u> |

¹ Consists of ₩ 180,206 thousand, a transfer from investment properties to property, plant and equipment.

Details of income and expenditure for the years ended December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

| | 2020 | 2019 |
|--------------------|-------------|-------------|
| Rental sales | ₩ 1,997,156 | ₩ 5,479,944 |
| Rental income | 2,138,670 | 2,677,103 |
| Operating expenses | 1,820,807 | 2,599,783 |

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

(in thousands of Korean won)

| | 2020 | 2019 |
|-------------|--------------|--------------|
| Book amount | ₩ 38,072,125 | ₩ 26,927,071 |
| Fair value | 168,162,605 | 130,993,711 |

As at December 31, 2020, contractual obligation for future repairs and maintenance amount is ₩ 22,062,000 thousand, and contractual obligation to be paid after the reporting period is ₩ 16,683,800 thousand.

Operating lease

The investment properties are leased to tenants under operating leases with rentals payable monthly. Lease payments for some contracts include CPI increases, but there are no other variable lease payments that depend on an index or rate. Where considered necessary to reduce credit risk, the Company may obtain bank guarantees for the term of the lease.

Although the Company is exposed to changes in the residual value at the end of the current leases, the Company typically enters into new operating leases and therefore will not immediately realize any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties.

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The future minimum lease payments expected to be received in relation to the above operating lease agreement for investment property as at December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|-------------|-------------------|-------------|------------------|
| Within one year | ₩ | 4,702,309 | ₩ | 4,459,417 |
| Between 1 and 2 years | | 7,014,960 | | - |
| Between 2 and 3 years | | 7,014,960 | | - |
| Between 3 and 4 years | | 7,014,960 | | - |
| Between 4 and 5 years | | 5,588,256 | | - |
| Later than five years | | 2,031,210 | | - |
| | ₩ | <u>33,366,655</u> | ₩ | <u>4,459,417</u> |

12. Intangible Assets

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

| <i>(in thousands of Korean won)</i> | 2020 | | |
|-------------------------------------|---------------------|---|--------------------|
| | Cost | Accumulated amortization¹ | Book amount |
| Industrial rights | ₩ 7,290,774 | ₩ (4,948,883) | ₩ 2,341,891 |
| Membership rights | 5,840,326 | (529,821) | 5,310,505 |
| Construction in progress | <u>727,290</u> | - | <u>727,290</u> |
| | ₩ <u>13,858,390</u> | ₩ <u>(5,478,704)</u> | ₩ <u>8,379,686</u> |

¹ Accumulated amortization and accumulated impairment losses are included.

| <i>(in thousands of Korean won)</i> | 2019 | | |
|-------------------------------------|---------------------|---|--------------------|
| | Cost | Accumulated amortization¹ | Book amount |
| Industrial rights | ₩ 5,542,875 | ₩ (4,118,375) | ₩ 1,424,500 |
| Membership rights | 6,101,381 | (763,709) | 5,337,671 |
| Construction in progress | <u>2,805,685</u> | - | <u>2,805,685</u> |
| | ₩ <u>14,449,940</u> | ₩ <u>(4,882,084)</u> | ₩ <u>9,567,856</u> |

¹ Accumulated amortization and accumulated impairment losses are included.

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Changes in intangible assets for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | | | | |
|-------------------------------------|------------------------------|--------------------|----------------------|---------------------|-----------------------------|---------------------------|
| | Beginning balance | Acquisition | Disposal | Amortization | Transfer¹ | Ending balance |
| Industrial rights | ₩ 1,424,500 | ₩ 199,287 | ₩ - | ₩ (830,508) | ₩ 1,548,612 | ₩ 2,341,891 |
| Membership rights | 5,337,671 | - | (27,166) | - | - | 5,310,505 |
| Construction in progress | 2,805,685 | 465,072 | (994,855) | - | (1,548,612) | 727,290 |
| | <u>₩ 9,567,856</u> | <u>₩ 664,359</u> | <u>₩ (1,022,021)</u> | <u>₩ (830,508)</u> | <u>₩ -</u> | <u>₩ 8,379,686</u> |

¹ Consists of ₩ 1,548,612 thousand, a transfer from construction in progress to industrial rights.

| <i>(in thousands of Korean won)</i> | 2019 | | | | | |
|-------------------------------------|------------------------------|--------------------|-----------------|---------------------|-----------------------------|---------------------------|
| | Beginning balance | Acquisition | Disposal | Amortization | Transfer¹ | Ending balance |
| Industrial rights | ₩ 1,840,292 | ₩ 89,815 | ₩ (170) | ₩ (662,181) | ₩ 156,744 | ₩ 1,424,500 |
| Membership rights | 5,337,671 | - | - | - | - | 5,337,671 |
| Construction in progress | 2,211,114 | 751,315 | - | - | (156,744) | 2,805,685 |
| | <u>₩ 9,389,077</u> | <u>₩ 841,130</u> | <u>₩ (170)</u> | <u>₩ (662,181)</u> | <u>₩ -</u> | <u>₩ 9,567,856</u> |

¹ Consists of ₩ 156,744 thousand, a transfer from construction in progress to industrial rights.

13. Leases

(a) Amounts recognized in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

| <i>(in thousands of Korean won)</i> | 2020 | 2019 |
|-------------------------------------|--------------------|-------------|
| Right-of-use assets ¹ | | |
| Buildings | ₩ 7,583,528 | ₩ - |
| Vehicles | 58,728 | - |
| | <u>₩ 7,642,256</u> | <u>₩ -</u> |

¹ Included in property, plant and equipment in the statement of financial position.

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| <i>(in thousands of Korean won)</i> | 2020 | 2019 |
|-------------------------------------|--------------------|-------------|
| Lease liabilities ¹ | | |
| Current | ₩ 308,422 | ₩ - |
| Non-current | 6,752,132 | - |
| | <u>₩ 7,060,554</u> | <u>₩ -</u> |

¹ Included in borrowings in the statement of financial position.

Additions to the right-of-use assets and lease liabilities during the 2020 financial year were ₩ 8,098,037 thousand and ₩ 7,257,992 thousand, respectively.

(b) Amounts recognized in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

| <i>(in millions of Korean won)</i> | 2020 | 2019 |
|---|------------------|-------------|
| Depreciation of right-of-use assets | | |
| Buildings | ₩ 421,884 | ₩ - |
| Vehicles | 17,136 | - |
| | <u>₩ 439,020</u> | <u>₩ -</u> |
| Interest expense relating to lease liabilities (included in finance cost) | ₩ 156,895 | ₩ - |
| Expense relating to short-term leases (included in administrative expenses) | - | 11,609 |
| Expense relating to leases of low-value assets that are not short-term leases (included in administrative expenses) | 3,323 | 3,150 |
| Expense relating to variable lease payments not included in lease liabilities (included in administrative expenses) | - | - |

The total cash outflow for leases in 2020 was ₩ 340,836 thousand (2019: ₩ 14,759 thousand).

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14. Investments in Subsidiaries and Associates

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

| Name of entity | Percentage of ownership (%) | | Location | Closing month | Main business |
|--|-----------------------------|-------|----------|---------------|--|
| | 2020 | 2019 | | | |
| Subsidiaries | | | | | |
| Hankook Atlas BX Co., Ltd. | 74.90 | 74.90 | Korea | December | Manufacturing and sales of storage batteries and dry cells |
| Hankook Car & Life Co., Ltd. ¹ | 100.0 | 100.0 | Korea | December | Repairing automobiles and sales of parts |
| Associates | | | | | |
| Hankook Tire & Technology Co., Ltd. ² | 31.15 | 30.67 | Korea | December | Manufacturing, reproduction processing and sales of the automobile tires, tubes and accessories. |
| Hankook Networks Co., Ltd. | 40.00 | 40.00 | Korea | December | E-business and total systems management service |

¹ The Company's effective percentage of ownership increased to 31.15% as Hankook Tire & Technology Co., Ltd., an associate of the Company, acquired 1,863,928 shares for ₩ 43,761 million during the year ended December 31, 2020.

Details of the Company's investments in subsidiaries and associates for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|---|-----------------------------|---------------------------|-----------------------------|---------------------------|
| | Investments in subsidiaries | Investments in associates | Investments in subsidiaries | Investments in associates |
| Beginning balance | ₩ 56,329,979 | ₩ 1,982,230,355 | ₩ 30,229,979 | ₩ 1,964,392,002 |
| Acquisition of subsidiaries and associates | - | - | 26,100,000 | 17,838,353 |
| Impairment loss on subsidiaries and associates ¹ | (26,395,000) | - | - | - |
| Ending balance | ₩ 29,934,979 | ₩ 1,982,230,355 | ₩ 56,329,979 | ₩ 1,982,230,355 |

¹ Hankook Car & Life Co., Ltd., a subsidiary, were tested for impairment as accumulation of operating losses has been experienced and a future downturn in sales is expected, therefore, The Company recognized the difference between the carrying amount and the recoverable amount amounting to ₩ 26,395,000 thousand as an impairment loss for the year ended December 31, 2020. The recoverable amount of the subsidiary is calculated on a basis of the value in use and the impairment loss is recognized as 'other expenses'.

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

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|-------------|---------------|-------------|---------------|
| Hankook Atlas BX Co., Ltd. | ₩ | 160,950,703 | ₩ | 145,567,804 |
| Hankook Tire & Technology Co., Ltd. | | 1,497,040,785 | | 1,274,764,424 |

15. Other Payables

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

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|---------------------|--------------------|---------------------|--------------------|
| | Current | Non-current | Current | Non-current |
| Non-trade payables | ₩ 7,976,136 | ₩ - | ₩ 3,681,368 | ₩ - |
| Accrued expenses | 392,507 | - | 280,682 | - |
| Dividend payables | 3,409 | - | 3,017 | - |
| Leasehold deposits received | 6,172,170 | - | 9,742,415 | - |
| | <u>₩ 14,544,222</u> | <u>₩ -</u> | <u>₩ 13,707,482</u> | <u>₩ -</u> |

16. Other Liabilities

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

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|--------------------|--------------------|------------------|--------------------|
| | Current | Non-current | Current | Non-current |
| Withholdings | ₩ 1,196,340 | ₩ - | ₩ 420,075 | ₩ - |
| Other long-term employee benefits | - | 106,000 | - | 73,121 |
| | <u>₩ 1,196,340</u> | <u>₩ 106,000</u> | <u>₩ 420,075</u> | <u>₩ 73,121</u> |

Changes in other long-term employee benefits for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | | |
|-------------------------------------|--------------------------|-----------------------|----------------|-----------------------|
| | Beginning balance | Profit or loss | Payment | Ending balance |
| Other long-term employee benefits | ₩ 73,121 | ₩ 32,879 | ₩ - | ₩ 106,000 |

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| <i>(in thousands of Korean won)</i> | 2019 | | | |
|-------------------------------------|--------------------------|-----------------------|----------------|-----------------------|
| | Beginning balance | Profit or loss | Payment | Ending balance |
| Other long-term employee benefits | ₩ 41,973 | ₩ 31,148 | ₩ - | ₩ 73,121 |

17. Net Defined Benefit Liabilities

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

The most recent actuarial assessment of plan assets and defined benefit obligation was performed on December 31, 2020, by Samsung Securities Co., Ltd. Present value of the defined benefit obligation, its related current service cost and past service cost have been measured by 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> | 2020 | | 2019 | |
|--|-------------|--------------------|-------------|--------------------|
| Present value of defined benefit obligations | ₩ | 10,321,746 | ₩ | 9,843,872 |
| Fair value of plan assets | | <u>(9,179,422)</u> | | <u>(5,980,229)</u> |
| Net defined benefit liabilities (assets) | ₩ | <u>1,142,324</u> | ₩ | <u>3,863,643</u> |

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

| <i>(in percentage)</i> | 2020 | 2019 |
|----------------------------------|-------------|-------------|
| Discount rate | 3.01% | 2.68% |
| Expected rate of salary increase | 6.36% | 6.39% |

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Movements in the defined benefit obligations and the fair value of plan assets for the years ended December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

| | 2020 | | |
|--|---|--------------------------------------|--------------------|
| | Present value of defined benefit obligations | Fair value of plan assets | Total |
| Beginning balance | ₩ 9,843,872 | ₩ (5,980,229) | ₩ 3,863,643 |
| Current service cost | 940,662 | - | 940,662 |
| Interest expense (income) | 256,207 | (143,630) | 112,577 |
| | <u>1,196,869</u> | <u>(143,630)</u> | <u>1,053,239</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (147,062) | (147,062) |
| Actuarial gain from change in demographic assumptions | - | - | - |
| Actuarial gain from change in financial assumptions | (260,626) | - | (260,626) |
| Actuarial gain from experience adjustments | 260,207 | - | 260,207 |
| | <u>(419)</u> | <u>(147,062)</u> | <u>(147,481)</u> |
| Employers contributions | - | (4,000,000) | (4,000,000) |
| Benefits payments | (466,741) | 860,100 | 393,359 |
| Others | (251,835) | 231,399 | (20,436) |
| Ending balance | <u>₩ 10,321,746</u> | <u>₩ (9,179,422)</u> | <u>₩ 1,142,324</u> |

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| <i>(in thousands of Korean won)</i> | 2019 | | |
|--|---|--------------------------------------|--------------------|
| | Present value of defined benefit obligations | Fair value of plan assets | Total |
| Beginning balance | ₩ 6,900,298 | ₩ (4,197,763) | ₩ 2,702,535 |
| Current service cost | 693,477 | - | 693,477 |
| Interest expense (income) | 74,726 | (122,660) | (47,934) |
| | <u>768,203</u> | <u>(122,660)</u> | <u>645,543</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in net interest) | - | (13,141) | (13,141) |
| Actuarial gain from change in demographic assumptions | 754 | - | 754 |
| Actuarial gain from change in financial assumptions | 448,048 | - | 448,048 |
| Actuarial gain from experience adjustments | 498,787 | - | 498,787 |
| | <u>947,589</u> | <u>(13,141)</u> | <u>934,448</u> |
| Benefits payments | (561,557) | 164,847 | (396,710) |
| Others | 1,789,339 | (1,811,512) | (22,173) |
| Ending balance | <u>₩ 9,843,872</u> | <u>₩ (5,980,229)</u> | <u>₩ 3,863,643</u> |

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

| <i>(in thousands of Korean won)</i> | 2020 | |
|-------------------------------------|-----------------|-----------------|
| | Increase | Decrease |
| 1% change of discount rate | ₩ (717,999) | ₩ 810,936 |
| 1% change of salary growth rate | 794,373 | (717,793) |

| <i>(in thousands of Korean won)</i> | 2019 | |
|-------------------------------------|-----------------|-----------------|
| | Increase | Decrease |
| 1% change of discount rate | ₩ (746,030) | ₩ 847,470 |
| 1% change of salary growth rate | 827,141 | (743,465) |

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Amounts recognized in the statements of comprehensive income regarding defined benefit pension plans for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|-------------|-----------|-------------|----------|
| Current service cost | ₩ | 940,662 | ₩ | 693,477 |
| Interest cost | | 112,577 | | (47,934) |
| | ₩ | 1,053,239 | ₩ | 645,543 |

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

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | Total | Composition | Total | Composition |
| Debt instruments | ₩ 9,179,421 | 100.0% | ₩ 5,980,226 | 100.0% |
| Cash and cash equivalents | 1 | 0.0% | 3 | 0.0% |
| | <u>₩ 9,179,422</u> | <u>100.0%</u> | <u>₩ 5,980,229</u> | <u>100.0%</u> |

The Company reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2021, are ₩ 2,162,566 thousand (2019: ₩ 4,000,000 thousand).

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

| <i>(in thousands of Korean won)</i> | 2020 | | | | |
|-------------------------------------|-----------------------------|------------------------------|------------------------------|-------------------------|--------------|
| | Less than 1 year | Between 1-2 years | Between 2-5 years | Over 5 years | Total |
| Pension benefits | ₩ 699,183 | ₩ 903,380 | ₩ 3,561,345 | ₩ 20,067,286 | ₩ 25,231,194 |

| <i>(in thousands of Korean won)</i> | 2019 | | | | |
|-------------------------------------|-----------------------------|------------------------------|------------------------------|-------------------------|--------------|
| | Less than 1 year | Between 1-2 years | Between 2-5 years | Over 5 years | Total |
| Pension benefits | ₩ 546,417 | ₩ 676,209 | ₩ 3,042,403 | ₩ 20,759,663 | ₩ 25,024,692 |

The weighted average duration of the defined benefit obligation is 7.6 years (2019: 8.3 years).

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18. Share Capital

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

| <i>(in Korean won, except for number of shares)</i> | 2020 | 2019 |
|---|-------------------------|-------------------------|
| Authorized (in shares) | 250,000,000 | 250,000,000 |
| Par value | ₩ 500 | ₩ 500 |
| Outstanding (in shares): | | |
| Ordinary share | 93,020,173 | 93,020,173 |
| Share capital: Ordinary share | <u>₩ 46,510,086,500</u> | <u>₩ 46,510,086,500</u> |

19. Other Paid-in-Capital

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

| <i>(in thousands of Korean won)</i> | 2020 | 2019 |
|-------------------------------------|------------------------|------------------------|
| Share premium | ₩ 1,302,628,300 | ₩ 1,302,628,300 |
| Treasury shares | <u>(11,092,609)</u> | <u>(11,092,609)</u> |
| | <u>₩ 1,291,535,691</u> | <u>₩ 1,291,535,691</u> |

As at December 31, 2020, the Company holds 1,325,090 ordinary shares in treasury, to stabilize the market price of its shares, and records treasury share as other paid-in capital. Further appropriation of them is not determined.

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20. Retained Earnings and Dividends

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

| <i>(in thousands of Korean won)</i> | 2020 | 2019 |
|--------------------------------------|----------------------|----------------------|
| Legal reserve: | | |
| Earned profit reserve ¹ | ₩ 24,761,716 | ₩ 24,761,716 |
| | <u>24,761,716</u> | <u>24,761,716</u> |
| Discretionary reserve: | | |
| Reserve for revaluation ² | 443,289,239 | 443,289,239 |
| Dividend equalization reserve | 60,000,000 | 60,000,000 |
| Director's retirement bonus reserve | 93,918,000 | 93,918,000 |
| Voluntary reserve | 110,000,000 | 110,000,000 |
| | <u>707,207,239</u> | <u>707,207,239</u> |
| Unappropriated retained earnings | 185,688,454 | 181,319,738 |
| | <u>₩ 917,657,409</u> | <u>₩ 913,288,693</u> |

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

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

Changes in retained earnings for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | 2019 |
|---|----------------------|----------------------|
| Beginning balance | ₩ 913,288,693 | ₩ 888,309,592 |
| Profit for the year | 35,120,267 | 53,195,937 |
| Dividend payments | (32,093,279) | (27,508,525) |
| Remeasurements of net defined benefit liabilities (assets) | 111,791 | (708,311) |
| Reclassification of gain on disposal of equity instruments at fair value through other comprehensive income, net of tax | 1,229,937 | - |
| Ending balance | <u>₩ 917,657,409</u> | <u>₩ 913,288,693</u> |

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Dividend distribution to the Company's shareholders amounted to ₩ 32,093,279 thousand (paid in 2019: ₩ 27,508,525 thousand) for the year ended December 31, 2019 was paid during the period.

Details of separate statements of appropriation of retained earnings for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | 2019 |
|---|--------------------------|--------------------------|
| 1. Retained earnings before appropriation | | |
| Unappropriated retained earnings carried over from prior year | ₩ 149,226,458,814 | ₩ 128,832,111,837 |
| Remeasurements of net defined benefit liabilities (assets) | 111,790,899 | (708,311,232) |
| Reclassification of gain on disposal of equity instruments at fair value through other comprehensive income, net of tax | 1,229,937,158 | - |
| Profit for the period | <u>35,120,267,028</u> | <u>53,195,937,259</u> |
| | <u>185,688,453,899</u> | <u>181,319,737,864</u> |
| 2. Transfers such as discretionary reserves | - | - |
| 3. Appropriation of retained earnings | | |
| Cash dividends (Dividends per share: 2020: ₩500 (100%) 2019: ₩350 (70%)) | <u>45,847,541,500</u> | <u>32,093,279,050</u> |
| | <u>45,847,541,500</u> | <u>32,093,279,050</u> |
| 4. Unappropriated retained earnings to be carried forward | <u>₩ 139,840,912,399</u> | <u>₩ 149,226,458,814</u> |

21. Other Components of Equity

Changes in other components of equity for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | | |
|--|--------------------------|-----------------------------|---|-----------------------|
| | Beginning balance | Increase¹ | Reclassification to profit or loss | Ending balance |
| Changes in the fair value of Financial assets at fair value through other comprehensive income | ₩ 958,479 | ₩ 142,325 | ₩ (1,229,937) | ₩ (129,133) |

¹Amount of tax effect is deducted.

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| <i>(in thousands of Korean won)</i> | 2019 | | | |
|--|--------------------------|-----------------------------|---|-----------------------|
| | Beginning balance | Increase¹ | Reclassification to profit or loss | Ending balance |
| Changes in the fair value of Financial assets at fair value through other comprehensive income | ₩ 226,055 | ₩ 732,424 | ₩ - | ₩ 958,479 |

¹ Amount of tax effect is deducted.

22. Operating income

Details of operating income for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|-------------|-------------------|-------------|-------------------|
| Rental sales | ₩ | 1,997,156 | ₩ | 5,479,944 |
| Training center sales | | 3 | | 813 |
| Service sales | | 6,050,032 | | 6,916,986 |
| Trademark right revenue | | 33,024,478 | | 51,857,983 |
| Dividend income | | 23,073,118 | | 18,395,627 |
| | ₩ | <u>64,144,787</u> | ₩ | <u>82,651,353</u> |

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23. Operating Expenses

Operating expenses for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|---|-------------|------------|-------------|------------|
| Payroll | ₩ | 8,669,915 | ₩ | 6,813,583 |
| Post-employment benefits | | 1,107,450 | | 632,234 |
| Employee benefits | | 910,459 | | 964,641 |
| Training expenses | | 14,218 | | 69,401 |
| Travel expenses | | 13,567 | | 262,367 |
| Vehicles maintenance expenses | | 30,036 | | 33,502 |
| Insurance | | 63,086 | | 56,100 |
| Taxes and dues | | 966,027 | | 1,009,369 |
| Entertainment expenses | | 109,356 | | 141,551 |
| Supplies expenses | | 3,656 | | 7,866 |
| Publication expenses | | 96,221 | | 90,989 |
| Communication expenses | | 63,646 | | 75,283 |
| Utility expenses | | 518,241 | | 860,898 |
| Repairs expenses | | 80,158 | | 189,206 |
| Conference expenses | | 414 | | 4,870 |
| Service fees | | 4,716,159 | | 3,445,044 |
| Depreciation of investment property | | 881,006 | | 781,863 |
| Depreciation of property, plant and equipment | | 645,951 | | 744,668 |
| Amortization of intangible assets | | 830,508 | | 662,181 |
| Depreciation of right-of-use assets | | 439,020 | | - |
| Service expenses | | 69,492 | | 62,531 |
| Shared service expenses | | 553,949 | | 1,384,516 |
| Impairment loss | | 800,000 | | - |
| Advertisement | | 3,759,752 | | 5,926,892 |
| Miscellaneous expenses | | 26,612 | | 107,873 |
| | ₩ | 25,368,899 | ₩ | 24,327,428 |

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24. Finance Income and Finance Costs

Details of financial income and finance costs for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|---|-------------|------------------|-------------|------------------|
| Finance income | | | | |
| Interest income | ₩ | 3,818,364 | ₩ | 4,585,838 |
| Gains on foreign currency transaction | | 1,682 | | 3,506 |
| Gains on valuation of debt instruments at fair value through profit or loss | | 1,219,515 | | 800,743 |
| Gains on disposal of debt instruments at fair value through profit or loss | | 128,030 | | 195,012 |
| Gains on valuation of equity instruments at fair value through profit or loss | | - | | 1,273,217 |
| | ₩ | <u>5,167,591</u> | ₩ | <u>6,858,316</u> |
| Finance costs | | | | |
| Interest expenses | ₩ | 156,895 | ₩ | - |
| Losses on foreign currency transaction | | 1,077 | | 4,212 |
| Losses on valuation of debt instruments at fair value through profit or loss | | 517,952 | | - |
| Losses on disposal of debt instruments at fair value through profit or loss | | 1,876 | | - |
| | ₩ | <u>677,800</u> | ₩ | <u>4,212</u> |

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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, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | 2019 |
|--|---------------------|--------------------|
| Other non-operating income | | |
| Gains on foreign currency transaction | ₩ 7,972 | ₩ 5,187 |
| Gains on foreign currency translation | 270 | 106 |
| Commission income | 173,500 | - |
| Rental income | 2,138,670 | 2,677,103 |
| Gains on disposal of property, plant and equipment | 59 | - |
| Gains on disposal of intangible assets | 150,833 | - |
| Miscellaneous gain | 29,471 | 208,805 |
| | <u>₩ 2,500,775</u> | <u>₩ 2,891,201</u> |
| Other non-operating expenses | | |
| Losses on foreign currency transaction | ₩ 4,697 | ₩ 6,858 |
| Losses on foreign currency translation | - | 204 |
| Losses on disposal of property, plant and equipment | - | 11,620 |
| Losses on abandonment of property, plant and equipment | 4 | - |
| Losses on disposal of intangible assets | - | 170 |
| Losses on abandonment of intangible assets | 994,854 | - |
| Impairment loss on investments in subsidiaries | 26,395,000 | - |
| Donation | 3,059,910 | 3,141,900 |
| Miscellaneous loss | 16,266 | 39,377 |
| | <u>₩ 30,470,731</u> | <u>₩ 3,200,129</u> |

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26. Cash Generated from Operations

Details of cash generated from operations for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | 2019 |
|--|-----------------------|-----------------------|
| Adjustments for: | | |
| Income tax expense (benefit) | ₩ (19,824,545) | ₩ 11,673,162 |
| Losses on foreign currency translation | - | 204 |
| Losses on disposal of property, plant and equipment | - | 11,620 |
| Losses on abandonment of property, plant and equipment | 4 | - |
| Losses on disposal of intangible assets | - | 170 |
| Losses on abandonment of intangible assets | 994,855 | - |
| Depreciation of investment property | 881,006 | 781,863 |
| Depreciation of property, plant and equipment | 1,084,971 | 744,668 |
| Amortization of intangible assets | 830,508 | 662,181 |
| Other long-term employee benefits | 32,880 | 31,148 |
| Post-employment benefit obligations | 1,053,240 | 645,543 |
| Interest income | (3,818,364) | (4,585,838) |
| Impairment loss | 800,000 | - |
| Interest expenses | 156,895 | - |
| Dividend received | (23,073,118) | (18,395,627) |
| Gains on foreign currency translation | (270) | (106) |
| Gains on disposal of property, plant and equipment | (59) | - |
| Gains on disposal of intangible assets | (150,833) | - |
| Impairment loss on investments in subsidiaries | 26,395,000 | - |
| Gains on valuation of debt instruments at fair value through profit or loss | (1,219,515) | (800,743) |
| Gains on disposal of debt instruments at fair value through profit or loss | (128,030) | (195,012) |
| Losses on disposal of debt instruments at fair value through profit or loss | 1,876 | - |
| Gains on valuation of equity instruments at fair value through profit or loss | - | (1,273,217) |
| Losses on valuation of equity instruments at fair value through profit or loss | 517,951 | - |
| | <u>₩ (15,465,548)</u> | <u>₩ (10,699,984)</u> |

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| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|--|-------------|-------------|-------------|-----------|
| Changes in operating assets and liabilities: | | | | |
| Decrease in trade receivables | ₩ | 68,323 | ₩ | 2,053,306 |
| Decrease (increase) in non-trade receivables | | (3,784) | | 725,449 |
| Decrease in advance payments | | - | | 282,950 |
| Decrease (increase) in prepaid expenses | | (3,961) | | 1,388 |
| Decrease (increase) in deposits | | (3,800) | | 15,400 |
| Decrease in leasehold deposits received | | - | | (39,200) |
| Decrease in non-trade payables | | (1,146,385) | | (305,294) |
| Increase in accrued expenses | | 111,825 | | 61,000 |
| Increase in withholdings | | 776,266 | | 155,117 |
| Decrease in post-employment benefit obligation | | (466,741) | | (561,557) |
| Decrease (increase) in pension plan assets | | (3,160,336) | | 142,675 |
| | ₩ | (3,828,593) | ₩ | 2,531,234 |

The principal non-cash transaction for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|--|-------------|-----------|-------------|------------|
| Transfer of construction in progress to intangible assets | ₩ | 1,548,612 | ₩ | 156,744 |
| Transfer of property, plant and equipment to investment properties | | 6,647,859 | | 180,206 |
| Increase in non-trade payables in relation to acquisition of investment properties | | 5,378,200 | | - |
| Increase in non-trade payables in relation to acquisition of intangible assets | | 65,194 | | 1,578 |
| Decrease in non-trade payables in relation to acquisition of intangible assets | | 1,578 | | 185,815 |
| Increase in right-of-use assets due to recognition of lease liabilities and others | | 8,098,037 | | - |
| Reclassification of current portion of financial assets at fair value through profit or loss | | - | | 10,765,774 |
| Reclassification of long-term loans to current portion | | - | | 4,000,000 |
| Reclassification of current portion of loans to non-current | | 4,000,000 | | - |

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Changes in lease liabilities arising from financial activities for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|-------------|------------------|-------------|----------|
| Beginning balance | ₩ | - | ₩ | - |
| Exchange differences and others | | - | | - |
| Cash flows (Principal) | | (180,618) | | - |
| Cash flows (Interest expenses) | | (156,895) | | - |
| Increase in lease liabilities | | 7,257,992 | | - |
| Other changes (Suspend and others) | | 140,075 | | - |
| Ending balance | ₩ | <u>7,060,555</u> | ₩ | <u>-</u> |

27. Tax Expense

Income tax expense for the years ended December 31, 2020 and 2019, consists of:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|---|-------------|---------------------|-------------|-------------------|
| Current tax: | | | | |
| Current tax on profits for the year | ₩ | 6,367,952 | ₩ | 11,198,057 |
| Adjustments in respect of prior years | | 11,662 | | (26,292) |
| Deferred tax: | | | | |
| Origination and reversal of temporary differences | | (26,123,030) | | 509,096 |
| Charged or credited directly to equity | | (81,129) | | (7,698) |
| Income tax expense (benefit) | ₩ | <u>(19,824,545)</u> | ₩ | <u>11,673,163</u> |

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

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|---|-------------|--------------|-------------|-------------|
| Profit before income tax expense | ₩ | 15,295,722 | ₩ | 64,869,100 |
| Tax at domestic tax rates applicable to profits in the respective countries | | 3,343,059 | | 15,236,322 |
| Tax effects of: | | | | |
| Income not subject to tax | | (4,359,868) | | (3,776,099) |
| Expenses not deductible for tax purposes | | 20,288 | | 29,837 |
| Income tax refund | | 1,725,106 | | 347,090 |
| Changes of unrecognized temporary differences as deferred tax | | (20,773,774) | | - |
| Others | | 220,644 | | (163,987) |

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| | | |
|------------------------------|----------------|--------------|
| | (23,167,604) | (3,563,159) |
| Income tax expense (benefit) | ₩ (19,824,545) | ₩ 11,673,163 |

The tax effect relating to components of other comprehensive income for the years ended December 31, 2020 and 2019, is as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | | 2019 | | |
|--|------------|------------|-----------|-------------|------------|-------------|
| | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| Remeasurements of net defined benefit liabilities (assets) | ₩ 147,481 | ₩ (35,690) | ₩ 111,791 | ₩ (934,448) | ₩ 226,137 | ₩ (708,311) |
| Loss on valuation of financial assets at fair value through other comprehensive income | 187,764 | (45,439) | 142,325 | 966,259 | (233,835) | 732,424 |
| | ₩ 335,245 | ₩ (81,129) | ₩ 254,116 | ₩ 31,811 | ₩ (7,698) | ₩ 24,113 |

The analysis of deferred tax assets and liabilities as at December 31, 2020 and 2019, is as follows:

| <i>(in thousands of Korean won)</i> | 2020 | 2019 |
|--|----------------|----------------|
| Deferred tax assets | | |
| Deferred tax asset to be recovered after more than 12 months | ₩ 6,198,280 | ₩ 6,490,203 |
| Deferred tax asset to be recovered within 12 months | 184,960 | 24,798 |
| | 6,383,240 | 6,515,001 |
| Deferred tax liabilities | | |
| Deferred tax liability to be recovered after more than 12 months | 37,669,237 | 63,925,859 |
| Deferred tax liability to be recovered within 12 months | 500,519 | 498,688 |
| | 38,169,756 | 64,424,547 |
| Deferred tax liabilities, net | ₩ (31,786,516) | ₩ (57,909,546) |

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

| <i>(in thousands of Korean won)</i> | 2020 | | | |
|---|------------------------------|--|---|---------------------------|
| | Beginning balance | Statement of profit or loss | Other comprehensive income | Ending balance |
| Deferred tax assets (liabilities) | | | | |
| Unearned revenue | ₩ (498,688) | ₩ (1,831) | ₩ - | ₩ (500,519) |
| Other long-term employee benefits | 17,695 | 7,957 | - | 25,652 |
| Accrued expenses | 24,797 | 17,253 | - | 42,050 |
| Non-trade receivables | 57,335 | 51,211 | - | 108,546 |
| Property, plant and equipment | 2,760,179 | (66,791) | - | 2,693,388 |
| Net defined benefit liabilities | 597,985 | (543,505) | (35,690) | 18,790 |
| Financial assets at fair value through profit or loss | (547,232) | (145,317) | - | (692,549) |
| Intangible assets | 184,818 | (56,130) | - | 128,688 |
| Construction in progress | 232,760 | - | - | 232,760 |
| Gain (loss) on valuation of financial assets at fair value through other comprehensive income | 2,639,431 | 229,012 | (45,439) | 2,823,004 |
| Advanced depreciation provision | (2,556,024) | - | - | (2,556,024) |
| Provision for impairment | - | 142,909 | - | 142,909 |
| Investments in subsidiaries and associates | (60,822,602) | 26,542,711 | - | (34,279,891) |
| Right-of-use assets | - | (1,849,426) | - | (1,849,426) |
| Finance lease liabilities | - | 1,708,654 | - | 1,708,654 |
| Leasehold deposits received | - | 167,452 | - | 167,452 |
| | <u>₩ (57,909,546)</u> | <u>26,204,159</u> | <u>(81,129)</u> | <u>(31,786,516)</u> |

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| | 2019 | | | |
|---|-----------------------|--------------------------------|----------------------------------|---------------------|
| | Beginning balance | Statement of profit or loss | Other comprehensive income | Ending balance |
| Deferred tax assets (liabilities) | | | | |
| Unearned revenue | ₩ (390,475) | ₩ (108,213) | ₩ - | ₩ (498,688) |
| Other long-term employee benefits | 10,158 | 7,537 | - | 17,695 |
| Accrued expenses | 24,797 | - | - | 24,797 |
| Non-trade receivables | 64,254 | (6,919) | - | 57,335 |
| Property, plant and equipment | 2,362,295 | 397,884 | - | 2,760,179 |
| Net defined benefit liabilities | 654,014 | (282,166) | 226,137 | 597,985 |
| Financial assets at fair value through profit or loss | (138,702) | (408,530) | - | (547,232) |
| Intangible assets | 201,521 | (16,703) | - | 184,818 |
| Construction in progress | 232,760 | - | - | 232,760 |
| Gain (loss) on valuation of financial assets at fair value through other comprehensive income | 2,957,555 | (84,289) | (233,835) | 2,639,431 |
| Advanced depreciation provision | (2,556,024) | - | - | (2,556,024) |
| Investments in subsidiaries and associates | (60,822,602) | - | - | (60,822,602) |
| | <u>₩ (57,400,449)</u> | <u>(501,398)</u> | <u>(7,698)</u> | <u>(57,909,546)</u> |

To determine the realizability of deferred tax assets, all available positive and negative evidences are considered, including the Company's performance, the market environment in which the Company operates, forecasts of future profitability, the utilization period of past tax credits, and other factors. Management periodically considers these factors in reaching its conclusion and deferred tax assets are not recognized if the realizability is uncertain. There are no unrecognized deductible (taxable) temporary differences as deferred tax assets (liabilities) as at December 31, 2020 and 2019.

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28. Related Party Transactions

Details of related parties as at December 31, 2020, are as follows:

| Type | Name of related parties |
|--|--|
| Individuals | Yang-Rai Cho, Hyun-Shick Cho, Hyun-Bum Cho |
| Subsidiaries | Hankook Atlas BX Co., Ltd., Atlas BX Motorsports Co., Ltd., Hankook AtlasBX America Corporation, Hankook Car & Life Co., Ltd., HK Motors Co., Ltd., Han Automobile Co., Ltd., Wavers Corp. |
| Associates | Hankook Tire & Technology Co., Ltd., Hankook Networks Co., Ltd. |
| Domestic subsidiaries of associates ¹ | Hankook Engineering Works Co., Ltd., Hankook Precision Works Co., Ltd., Hankook Donggeurami Partners Co., Ltd., KCG 1 Private Equity Fund Limited Partnership, Model Solution Co., Ltd, TNA CO., LTD. |
| Overseas subsidiaries of associates | Hankook Tire America Corp., Hankook Tyre U.K. Ltd., Jiangsu Hankook Tire Co., Ltd., Hankook Tire China Co., Ltd., Shanghai Hankook Tire Sales Co., Ltd., Hankook Tire Netherlands B.V., Hankook Tire Japan Corp., Hankook Tire Canada Corp., Hankook Reifen Deutschland GmbH, Hankook Tire France SARL, Hankook Tire Italia S.R.L., Hankook Espana S.A., Hankook Tyre Australia Pty., Ltd., Hankook Tire Hungary Ltd., Hankook Tire Europe Holdings B.V, Hankook Tire Europe GmbH, Hankook Tire Budapest Kereskedelmi Kft, Hankook Tire DE Mexico, S.A. DE C.V., Chongqing Hankooktire Co., Ltd., Hankook Tire Rus LLC, PT. HANKOOKTIRE INDONESIA, MK Mold (Jiaxing) Co., LTD, Hankook Tire Singapore PTE., Ltd., Hankook Tire Malaysia SDN.BHD., Hankook Tire Sweden AB, Beijing Jielun Trading Company Co., Ltd., Hankook Lastikleri A.S., Hankook Tire Polska Sp. z o.o., Hankook Tire Thailand Co., Ltd., Hankook Tire de Colombia Ltda., Hankook Tire America Holdings I, LLC, Hankook Tire America Holdings II, LLC, Hankook Tire Manufacturing Tennessee LP, Hankook Tire Ceska Republika s.r.o. MK Technology (CHONGQING) Mould Co., Ltd., Hankook Networks America, Inc (formerly, Emfrontier America), 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., Hankook Tire Ukraine LLC, ModelSolution Inc., Reifen-Muller KG, Reifen-Muller Runderneuerung BV, RM Verwaltungs GmbH, RU Verwaltungs GmbH, Hankook Tire D.O.O. Beograd, HANKOOK TIRE MIDDLE EAST AND AFRICA FZE, Hankook Tire Vietnam Co. LTD, PT. HankookTire Sales Indonesia, Hankook Tire Austria GmbH |
| Other related parties ² | Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery Jiaxing Co., Ltd., ARUM Electronics Co., Ltd. (formerly , YKT Co., Ltd.), Seil Hwangyeong Co., Ltd., Doowon Holdings Co., Ltd., ARUM Dentistry Co., Ltd., Janji.CO., LTD |

¹ In the case of Wavers Corp., although it is stated as the holding company's subsidiary, it is not stated in the affiliates because the Korea Fair Trade Committee's declaration of delaying its inclusion to the group until June 27, 2026, was applied. On April 1, 2020, HK Motors Co., Ltd., a subsidiary, merged with JAX Motors Co., Ltd., and the name of existing company after the merge is HK Motors Co., Ltd.

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

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Transactions between the Company and related parties for the years ended December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

| | | 2020 | | |
|-------------------------------------|---|-------------------------------------|---------------------------|---------------------|
| | Name of entity | Operating income¹ | Operating expenses | Other income |
| Subsidiaries | Hankook Atlas BX Co., Ltd. | ₩ 2,763,062 | ₩ - | ₩ 63,490 |
| | HK Motors, Co., Ltd. | - | - | 17,997 |
| | Hankook Car & Life Co., Ltd. | - | - | 1,212 |
| Associates | Hankook Tire & Technology Co., Ltd. | 59,455,536 | 743,907 | 505,621 |
| | Hankook Networks Co., Ltd. | - | 23,647 | 45,204 |
| Domestic subsidiaries of associates | Hankook Donggeurami Partners Co., Ltd. and others | 2,145 | 72,211 | 65,798 |
| Overseas subsidiaries of associates | Hankook Tire Canada Corp. and others | - | 95,634 | - |
| Other related parties | Shin-Yang Tourist Development and others | - | - | 5,674 |
| | | <u>₩ 62,220,743</u> | <u>₩ 935,399</u> | <u>₩ 704,996</u> |

¹ Dividends received from the subsidiaries and associates are included.

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Korean won)

| | | 2019 | | | | | |
|-------------------------------------|---|---|--------------|-------------------------------|-------------|-------------------------|-------------|
| Name of entity | | Operating income¹ | | Operating expenses | | Other income | |
| Subsidiaries | Hankook Atlas BX Co., Ltd. | ₩ | 2,197,404 | ₩ | - | ₩ | - |
| | HK Motors, Co., Ltd. | | - | | - | | 143,444 |
| | Hankook Car & Life Co., Ltd. | | - | | - | | 7,272 |
| Associates | Hankook Tire & Technology Co., Ltd. | | 77,332,854 | | 1,452,756 | | 1,258,800 |
| | Hankook Networks Co., Ltd. | | - | | 63,111 | | - |
| Domestic subsidiaries of associates | Hankook Donggeurami Partners Co., Ltd. and others | | 5,780 | | 83,498 | | 2,580 |
| Overseas subsidiaries of associates | Hankook Tire Canada Corp. and others | | - | | 95,029 | | - |
| Other related parties | Shin-Yang Tourist Development and others | | 450 | | - | | 5,814 |
| | | | ₩ 79,536,488 | | ₩ 1,694,394 | | ₩ 1,417,910 |

¹ Dividends received from the subsidiaries and associates are included.

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

(in thousands of
Korean won)

| | | 2020 | | | | | | | |
|-------------------------------------|--|------------------------------|--------------|------------------------------|-------------|-------------------------------|-----------|---------------------------|-------------|
| Name of entity | | Trade receivables | | Other receivables | | Non-trade payables | | Other payables | |
| Subsidiaries | Hankook Atlas BX Co., Ltd. | ₩ | 615,770 | ₩ | - | ₩ | - | ₩ | - |
| Associates | Hankook Tire & Technology Co., Ltd. | | 16,229,396 | | 8,578,050 | | 188,396 | | 7,061,419 |
| | Hankook Networks Co., Ltd. | | 24,862 | | - | | 164 | | - |
| Domestic subsidiaries of associates | Hankook Engineering Works Co., Ltd. and others | | 35,643 | | - | | - | | - |
| Overseas subsidiaries of associates | Hankook Tire Canada Corp. and others | | - | | - | | 7,728 | | - |
| Other related parties | Shin-Yang Tourist Development and others | | - | | 533 | | - | | 105,503 |
| | | | ₩ 16,905,671 | | ₩ 8,578,583 | | ₩ 196,288 | | ₩ 7,166,922 |

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(in thousands of
Korean won)

| | | 2019 | | | |
|-------------------------------------|---|----------------------|----------------------|-----------------------|--------------------|
| Name of entity | | Trade receivables | Other receivables | Non-trade payables | Other payables |
| Subsidiaries | Hankook Atlas BX Co., Ltd. | ₩ 1,163,723 | ₩ - | ₩ - | ₩ - |
| | HK Motors Co., Ltd. | - | 4,343,444 | - | - |
| | Hankook Car & Life Co., Ltd. | - | - | - | 13,321 |
| Associates | Hankook Tire & Technology Co., Ltd. | 15,810,271 | 4,266 | 386,720 | 2,335,890 |
| | Hankook Networks Co., Ltd. | - | - | 4,206 | - |
| Domestic subsidiaries of associates | Hankook Donggeurami Partners Co., Ltd. and others | - | 748 | 1,093 | 4,650 |
| Overseas subsidiaries of associates | Hankook Tire Canada Corp. and others | - | - | 7,954 | - |
| Other related parties | Shin-Yang Tourist Development and others | - | - | - | 105,503 |
| | | <u>₩ 16,973,994</u> | <u>₩ 4,348,458</u> | <u>₩ 399,973</u> | <u>₩ 2,459,364</u> |

Loans to related parties for the years ended December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

| | | 2020 | | | |
|------------|--------------------|----------------------|----------|---------------|----------------|
| | | Beginning balance | Increase | Decrease | Ending balance |
| Subsidiary | HK Motors Co., Ltd | ₩ 4,200,000 | ₩ - | ₩ (4,200,000) | ₩ - |

(in thousands of Korean won)

| | | 2019 | | | |
|------------|--------------------|----------------------|-------------|----------|----------------|
| | | Beginning balance | Increase | Decrease | Ending balance |
| Subsidiary | HK Motors Co., Ltd | ₩ - | ₩ 4,200,000 | ₩ - | ₩ 4,200,000 |

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Payment of leasehold deposits provided to related parties for the years ended December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

| | Name of entity | 2020 | | 2019 | |
|-------------------------------------|--|---------------------|------------|-----------------|------------|
| | | Paid | Received | Paid | Received |
| Subsidiaries | Hankook Car & Life Co., Ltd. | ₩ 13,321 | ₩ - | ₩ - | ₩ - |
| Associate | Hankook Tire & Technology Co., Ltd. | 11,545,890 | - | 34,200 | - |
| Domestic subsidiaries of associates | Hankook Donggeurami Partners Co., Ltd. | 4,650 | - | - | - |
| | | <u>₩ 11,563,861</u> | <u>₩ -</u> | <u>₩ 34,200</u> | <u>₩ -</u> |

Dividend income and contributions in cash from/to related parties for the years ended December 31, 2020 and 2019, are as follows:

(in thousands of Korean won)

| 5 | Name of entity | 2020 | | | 2019 | |
|--------------|-------------------------------------|---------------------|--------------------------------|-----------------------|---------------------|-----------------------|
| | | Dividend income | Repayment of lease liabilities | Contributions in cash | Dividend income | Contributions in cash |
| Subsidiaries | Hankook Atlas BX Co., Ltd. | ₩ 1,139,474 | ₩ - | ₩ - | ₩ 1,139,474 | ₩ - |
| | Hankook Car & Life Co., Ltd. | - | - | - | - | 26,100,000 |
| Associate | Hankook Tire & Technology Co., Ltd. | <u>20,897,777</u> | <u>320,078</u> | <u>-</u> | <u>16,833,895</u> | <u>17,838,353</u> |
| | | <u>₩ 22,037,251</u> | <u>₩ 320,078</u> | <u>₩ -</u> | <u>₩ 17,973,369</u> | <u>₩ 43,938,353</u> |

¹ The Company entered into a lease contract for buildings, and the balance of right-of-use assets and lease liabilities is ₩ 7,583,528 thousand and ₩ 7,001,419 thousand, respectively, as at December 31, 2020. Interest expense of lease liabilities amount to ₩ 156,130 thousand for the year ended December 31, 2020.

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Compensations for key management for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|-------------|------------------|-------------|------------------|
| Short-term benefits | ₩ | 3,932,792 | ₩ | 2,266,066 |
| Post-employment benefits | | 502,271 | | 308,921 |
| | ₩ | <u>4,435,063</u> | ₩ | <u>2,574,987</u> |

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

29. Contingencies and Commitments

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

| <i>(in thousands on Korean won)</i> | | 2020 | | 2019 | |
|-------------------------------------|--------------|--------------------------|--------------------|--------------------------|---------------------|
| | | Commitment amount | Korean won | Commitment amount | Korean won |
| Purchase card agreements | Shinhan Bank | KRW 4,000,000 | ₩ 4,000,000 | KRW 5,000,000 | ₩ 5,000,000 |
| General loans agreements | Woori Bank | KRW 4,000,000 | 4,000,000 | KRW 5,000,000 | 5,000,000 |
| | | <u>KRW 8,000,000</u> | <u>₩ 8,000,000</u> | <u>KRW 10,000,000</u> | <u>₩ 10,000,000</u> |

As at December 31, 2020, the Company entered into supply contract with Hankook Tire & Technology Co., Ltd. and Hankook Atlas BX Co., Ltd., a related party, to provide trademark license, and a lease agreement with Hankook Tire & Technology Co., Ltd. and Shin-Yang World Leisure.

In addition, the Company has a supply contract with Hankook Tire & Technology Co., Ltd. to provide supporting work regarding planning and investment and to be provided with several finance, accounting and legal support.

In addition, the Company entered into a demand contract to be provided with maintenance service for the Company's information system with Hankook Networks Co., Ltd., a related party.

As at December 31, 2020, the Company is currently accused of two pending litigation (litigation value: ₩ 300 million). As at December 31, 2020, the Company cannot reasonably estimate the impact from the result of the case on its financial statements. In relation to this, the Company carries deposit guarantee insurance amounting to ₩ 300 million with Seoul guarantee insurance company.

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The Company is provided with 51,111 shares of RBK Holdings Co., Ltd. and 576,895 shares of FRIXA CO.,LTD., a subsidiary of RBK Holdings Co., Ltd., as collateral in relation to long-term loans.

30. Operating Segment Information

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

The Company derives the following types of revenue:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|-------------|-------------------|-------------|-------------------|
| Service sales | ₩ | 8,047,191 | ₩ | 12,397,743 |
| Trademark right revenue | | 33,024,478 | | 51,857,983 |
| Dividend income | | 23,073,118 | | 18,395,627 |
| | ₩ | <u>64,144,787</u> | ₩ | <u>82,651,353</u> |

Revenue from external customers broken down by location of the Company for the years ended December 31, 2020 and 2019, are shown as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|-------------|------------|-------------|------------|
| Korea (headquarter) | ₩ | 64,144,787 | ₩ | 82,651,353 |

Details of external customers, who contribute more than 10% of the Company's revenue for the years ended December 31, 2020 and 2019, are as follows:

| <i>(in thousands of Korean won)</i> | 2020 | | 2019 | |
|-------------------------------------|-------------|------------|-------------|------------|
| A Company | ₩ | 59,455,536 | ₩ | 77,332,854 |

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31. Earnings Per Share

The Company's basic earnings per share attributable to equity holders of Parent Company for the years ended December 31, 2020 and 2019, are computed as follows:

| <i>(in Korean won, except for number of shares)</i> | 2020 | 2019 |
|--|------------------|------------------|
| Profit attributable to the ordinary equity holders ¹ | ₩ 35,120,267,028 | ₩ 53,195,937,259 |
| Weighted-average number of ordinary shares outstanding (in share) ² | 91,695,083 | 91,695,083 |
| Basic earnings per share | ₩ 383 | ₩ 580 |

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

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

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

32. Credit risk

The Company is exposed to credit risk if the counterparty does not make payment by the due date.

- Payment of trade receivables by payment term for the customer
- Contractual cash flow of debt instruments at amortized costs
- Contractual cash flow of debt instruments at fair value through other comprehensive income

A. Trade receivables

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. Loss allowance was not recognized at the end of the reporting period and no related loss was recognized as 'operating expenses' in profit or loss for the years ended December 31, 2020 and 2019.

Gross book amount of trade receivables, the maximum exposure amount, is ₩ 16,905,671 thousand at the reporting period (2019: ₩ 16,973,995 thousand).

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B. Other financial assets at amortized cost

Other financial assets at amortized cost include government bonds, loans to related parties, and other receivables. Loss allowance for Other financial assets amortized cost amounting to ₩ 800,000 thousand was recognized at the end of the reporting period and related loss amounting to ₩ 800,000 thousand was recognized as 'operating expenses' in profit or loss for the years ended December 31, 2020 and 2019.

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

C. Debt investments at fair value through other comprehensive income

Debt investments at fair value through other comprehensive income include government bonds, corporate bonds and trade receivables subject to be sold. The loss allowance for debt investments at fair value through other comprehensive income is recognized in profit or loss and reduces the fair value loss otherwise recognized in other comprehensive income. Loss allowance for Debt investments at fair value through other comprehensive income was not recognized at the end of the reporting period and no related loss was recognized as 'finance costs' in profit or loss for the years ended December 31, 2020 and 2019.

All of the debt investments at fair value through other comprehensive income are considered to have low credit risk, and the loss allowance recognized during the period was, therefore, limited to 12 months expected losses. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

33. Events After the Reporting Period

In order to diversify the business portfolio and discover areas where future sustainable growth is available through transformation into a business holding company, the Company resolved and approved to merge with HANKOOK ATLASBX CO.,LTD., a subsidiary, on April 1, 2021 at the Board of Directors meeting held on February 15, 2021.



**Report on Independent Auditor's
Audit of Internal Control over Financial Reporting**

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
HANKOOK & COMPANY CO., LTD. (formerly, Hankook Technology Group Co., Ltd.)

Opinion on Internal Control over Financial Reporting

We have audited HANKOOK & COMPANY CO., LTD.'s (the Company) Internal Control over Financial Reporting as of December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on *Conceptual Framework for Designing and Operating Internal Control over Financial Reporting*.

We also have audited, in accordance with Korean Standards of Auditing, the separate financial statements of the Company, which comprise the separate statement of financial position as at December 31, 2020, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flow for the year then ended, and notes to the separate financial statements including a summary of significant accounting policies, and our report dated March 22, 2021 expressed an unqualified opinion.

Basis for Opinion on Internal Control over Financial Reporting

We conducted our audit in accordance with Korean Standards on Auditing. Our responsibility under these standards are further described in the *Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of internal control over financial reporting and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and Those Charged with Governance for Internal Control over Financial Reporting

Management is responsible for designing, implementing and maintaining effective internal control over financial reporting, and for its assessment and the effectiveness of internal control over financial reporting, included in the accompanying *Internal Control over Financial Reporting Operating Status Report by CEO & Internal Accounting Manager*.

Those charged with governance have the responsibilities for overseeing internal control over financial reporting.

Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our responsibility is to express opinion on the Company's internal control over financial reporting based on our audit. We conducted the audit in accordance with Korean Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as adopted by the Republic of Korea, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The engagement partner on the audit resulting in this independent auditor's report is Keun-young, Chung, Certified Public Accountant.

Samil PriceWaterhouseCoopers

Seoul, Korea
March 22, 2021

This report is effective as of March 22, 2021, 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 Company's internal control over financial reporting 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.

Report on the Effectiveness of Internal Control over Financial Reporting

To the Shareholders, Board of Directors, and Audit Committee of
Hankook & Company Co., Ltd.

We, as the Chief Executive Officer and the Internal Accounting Manager of
Hankook & Company Co., Ltd. ("the Company"), assessed operating status of the
Company's Internal Control over Financial Reporting ("ICFR") for the year ending
December 31, 2020.

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

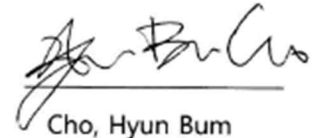
We evaluated whether the Company effectively designed and operated its ICFR
to prevent and detect errors or frauds which may cause a misstatement in
financial statements to ensure preparation and disclosure of reliable financial
information.

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

Based on our assessment, the Company's ICFR is designed and operated effectively as of December 31, 2020 in accordance with the 'Conceptual Framework for Designing and Operating Internal Control over Financial Reporting'.

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

February 25, 2021



Cho, Hyun Bum

Chief Executive Officer



Won, Jong Pil

Internal Accounting Manager