

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

Hankook Tire Co., Ltd. and Subsidiaries

Index

December 31, 2017 and 2016

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

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

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

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

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

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

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

Opinion

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

Other Matters

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

Seoul, Korea
March 16, 2018

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

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

| <i>(in thousands of Korean won)</i> | Notes | 2017 | | 2016 | |
|--|--------------|-------------|-----------------------------|-------------|-----------------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 6 | ₩ | 694,151,216 | ₩ | 465,349,713 |
| Short-term financial assets | 6 | | 4,343,731 | | 157,285,294 |
| Trade and other receivables | 6,7,39 | | 1,254,005,058 | | 1,184,360,080 |
| Inventories | 8 | | 1,494,391,162 | | 1,436,307,176 |
| Other financial assets | 5,6,9 | | 11,673,900 | | 11,955,149 |
| Other current assets | 10 | | 75,881,689 | | 37,804,247 |
| | | | <u>3,534,446,756</u> | | <u>3,293,061,659</u> |
| Non-current assets | | | | | |
| Long-term financial assets | 6 | | 60,995 | | 66,970 |
| Trade and other receivables | 6,7 | | 972,439 | | - |
| Available-for-sale financial assets | 5,6,11 | | 4,387,494 | | 3,827,264 |
| Investments in associates | 12 | | 1,090,392,140 | | 1,081,080,298 |
| Property, plant and equipment | 14 | | 4,317,370,358 | | 4,699,252,646 |
| Investment properties | 15 | | 108,704,303 | | 109,433,663 |
| Intangible assets | 16 | | 195,528,100 | | 146,188,066 |
| Other financial assets | 5,6,9 | | 22,362,727 | | 17,019,085 |
| Other non-current assets | 10,22 | | 99,016,901 | | 94,033,395 |
| Deferred tax assets | 33 | | 145,543,938 | | 178,010,193 |
| | | | <u>5,984,339,395</u> | | <u>6,328,911,580</u> |
| Total assets | | ₩ | <u>9,518,786,151</u> | ₩ | <u>9,621,973,239</u> |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 6,17,39 | ₩ | 864,748,927 | ₩ | 954,771,790 |
| Borrowings | 6,18 | | 1,234,067,835 | | 1,251,986,113 |
| Current tax liabilities | | | 41,225,704 | | 100,321,502 |
| Provisions | 19 | | 37,442,036 | | 41,663,152 |
| Other financial liabilities | 5,6,20 | | 5,833,677 | | 4,651,296 |
| Other current liabilities | 21 | | 90,660,985 | | 93,392,250 |
| | | | <u>2,273,979,164</u> | | <u>2,446,786,103</u> |
| Non-current liabilities | | | | | |
| Borrowings | 6,18 | | 739,391,689 | | 1,075,349,043 |
| Net defined benefit liabilities | 22 | | 5,268,711 | | 18,647,690 |
| Provisions | 19 | | 17,681,372 | | 22,030,898 |
| Other financial liabilities | 5,6,20 | | 1,351,943 | | 1,047,698 |
| Other non-current liabilities | 21 | | 85,140,078 | | 94,959,145 |
| Deferred tax liabilities | 33 | | 22,466,949 | | 1,673,342 |
| | | | <u>871,300,742</u> | | <u>1,213,707,816</u> |
| Total liabilities | | | <u>3,145,279,906</u> | | <u>3,660,493,919</u> |
| Equity | | | | | |
| Share capital | 23 | | 61,937,535 | | 61,937,535 |
| Other paid-in capital | 24 | | 2,992,377,720 | | 2,992,377,720 |
| Retained earnings | 25 | | 3,518,984,934 | | 2,950,572,887 |
| Other components of equity | 26 | | (214,629,000) | | (55,503,479) |
| Equity attributable to owners of the Parent Company | | | <u>6,358,671,189</u> | | <u>5,949,384,663</u> |
| Non-controlling interest | | | <u>14,835,056</u> | | <u>12,094,657</u> |
| Total equity | | | <u>6,373,506,245</u> | | <u>5,961,479,320</u> |
| Total liabilities and equity | | ₩ | <u>9,518,786,151</u> | ₩ | <u>9,621,973,239</u> |

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

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

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

| | Notes | 2017 | 2016 |
|--|----------|-----------------|-----------------|
| Sales | 27,36,39 | ₩ 6,812,857,982 | ₩ 6,621,762,292 |
| Cost of sales | 27,34,39 | (4,492,383,668) | (4,045,028,258) |
| Gross profit | | 2,320,474,314 | 2,576,734,034 |
| Selling and administrative expenses | 28,34 | (1,349,380,914) | (1,306,433,391) |
| Research and development expenses | 34 | (177,661,628) | (167,072,884) |
| Operating profit | | 793,431,772 | 1,103,227,759 |
| Finance income | 29 | 130,472,074 | 116,718,744 |
| Finance costs | 30 | (145,023,596) | (206,290,491) |
| Other non-operating income | 31 | 123,560,556 | 197,726,700 |
| Other non-operating expense | 32 | (195,509,241) | (163,818,354) |
| Gain on investments in associates, net | 12 | 36,104,778 | 44,851,981 |
| Profit before income tax | | 743,036,343 | 1,092,416,339 |
| Income tax expense | 33 | (136,579,502) | (213,326,123) |
| Profit for the year | | ₩ 606,456,841 | ₩ 879,090,216 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | |
| Remeasurements of net defined benefit liabilities | | 16,876,422 | (6,648,494) |
| Remeasurements of net defined benefit liabilities of associates | | 1,906,335 | (336,277) |
| <i>Items that may be subsequently reclassified to profit or loss</i> | | | |
| Changes in the fair value of available-for-sale financial assets | 26 | 924,537 | 159,343 |
| Share of other comprehensive income of associates | 12,26 | 3,174,565 | (3,556,671) |
| Exchange differences on translating foreign operations | 26 | (163,648,962) | 1,524,073 |
| Other comprehensive income for the year, net of tax | | (140,767,103) | (8,858,026) |
| Total comprehensive income for the year | | ₩ 465,689,738 | ₩ 870,232,190 |
| Profit for the year is attributable to: | | | |
| Owners of the Parent Company | | ₩ 599,063,937 | ₩ 872,851,251 |
| Non-controlling interests | | 7,392,904 | 6,238,965 |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of the Parent Company | | ₩ 458,827,597 | ₩ 864,572,229 |
| Non-controlling interests | | 6,862,141 | 5,659,961 |
| Earnings per share | | | |
| Basic and diluted earnings per share | 35 | ₩ 4,837 | ₩ 7,047 |

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

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

| <i>(in thousands of Korean won)</i> | Notes | Other paid-in capital | | | Retained earnings | Other components of equity | Total | Non-controlling interest | Total equity |
|--|-------|-----------------------|------------------------|----------------------|------------------------|----------------------------|------------------------|--------------------------|------------------------|
| | | Share capital | Share premium | Treasury shares | | | | | |
| Balance as at January 1, 2016 | | W 61,937,535 | W 2,993,465,738 | W (1,088,018) | W 2,134,050,379 | W (54,012,127) | W 5,134,353,507 | W 6,434,695 | W 5,140,788,202 |
| Annual dividends | 25 | - | - | - | (49,541,072) | - | (49,541,072) | - | (49,541,072) |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | | - | - | - | 872,851,251 | - | 872,851,251 | 6,238,967 | 879,090,218 |
| Remeasurements of net defined benefit liabilities of associates | | - | - | - | (336,278) | - | (336,278) | - | (336,278) |
| Changes in the fair value of available-for-sale financial assets | 26 | - | - | - | - | 158,738 | 158,738 | 605 | 159,343 |
| Share of other comprehensive income of associates | 26 | - | - | - | - | (3,556,671) | (3,556,671) | - | (3,556,671) |
| Exchange differences on translating foreign operations | 26 | - | - | - | - | 1,906,581 | 1,906,581 | (382,509) | 1,524,072 |
| Remeasurements of net defined benefit liabilities | | - | - | - | (6,451,393) | - | (6,451,393) | (197,101) | (6,648,494) |
| Balance at December 31, 2016 | | <u>W 61,937,535</u> | <u>W 2,993,465,738</u> | <u>W (1,088,018)</u> | <u>W 2,950,572,887</u> | <u>W (55,503,479)</u> | <u>W 5,949,384,663</u> | <u>W 12,094,657</u> | <u>W 5,961,479,320</u> |
| Balance as at January 1, 2017 | | W 61,937,535 | W 2,993,465,738 | W (1,088,018) | W 2,950,572,887 | W (55,503,479) | W 5,949,384,663 | W 12,094,657 | W 5,961,479,320 |
| Annual dividends | 25 | - | - | - | (49,541,072) | - | (49,541,072) | (4,121,740) | (53,662,812) |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | | - | - | - | 599,063,937 | - | 599,063,937 | 7,392,904 | 606,456,841 |
| Remeasurements of net defined benefit liabilities | | - | - | - | 16,982,847 | - | 16,982,847 | (106,425) | 16,876,422 |
| Remeasurements of net defined benefit liabilities of associates | 26 | - | - | - | 1,906,335 | - | 1,906,335 | - | 1,906,335 |
| Changes in the fair value of available-for-sale financial assets | 26 | - | - | - | - | 922,766 | 922,766 | 1,771 | 924,537 |
| Exchange differences on translating foreign operations | 26 | - | - | - | - | (163,222,853) | (163,222,853) | (426,110) | (163,648,963) |
| Share of other comprehensive income of associates | | - | - | - | - | 3,174,565 | 3,174,565 | - | 3,174,565 |
| Balance at December 31, 2017 | | <u>W 61,937,535</u> | <u>W 2,993,465,738</u> | <u>W (1,088,018)</u> | <u>W 3,518,984,934</u> | <u>W (214,629,001)</u> | <u>W 6,358,671,188</u> | <u>W 14,835,057</u> | <u>W 6,373,506,245</u> |

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

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

| <i>(in thousands of Korean won)</i> | Notes | 2017 | 2016 |
|---|-------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Cash generated from operating activities | | | |
| Profit for the year | | ₩ 606,456,841 | ₩ 879,090,216 |
| Adjustments | 37 | 805,282,614 | 797,535,595 |
| Changes in operating assets and liabilities | 37 | <u>(370,289,049)</u> | <u>(236,608,954)</u> |
| | | 1,041,450,406 | 1,440,016,857 |
| Interest received | | 13,903,988 | 16,459,848 |
| Interest paid | | (66,788,488) | (49,774,185) |
| Dividends received | | 31,279,071 | 35,969,386 |
| Income tax paid | | <u>(168,113,742)</u> | <u>(224,905,520)</u> |
| Net cash inflow from operating activities | | <u>851,731,235</u> | <u>1,217,766,386</u> |
| Cash flows from investing activities | | | |
| Net change in short-term financial assets | | 150,051,711 | (34,608,876) |
| Net change in long-term financial assets | | (1,592) | - |
| Payments for available-for-sale financial assets | | (140) | (20,910) |
| Proceeds from disposal of available-for-sale financial assets | | 100,032 | 167,840 |
| Payments for property, plant and equipment | 14 | (472,292,699) | (722,705,887) |
| Proceeds from disposal of property, plant and equipment | 14 | 39,422,188 | 39,339,948 |
| Payments for investment properties | 15 | - | (353,509) |
| Payments for intangible assets | 16 | (7,128,051) | (22,854,645) |
| Proceeds from disposal of intangible assets | 16 | 31,289 | - |
| Settlement of derivatives | | 244,517 | 4,894,420 |
| Net changes in other financial assets | | (1,354,364) | (3,854,133) |
| Payments for investments in subsidiaries | 40 | (53,828,670) | - |
| Proceeds from disposal of investments in subsidiaries | 40 | 498,442 | - |
| Net cash outflow from investing activities | | <u>(344,257,337)</u> | <u>(739,995,752)</u> |
| Cash flows from financing activities | | | |
| Net changes in short-term borrowings | | (49,381,446) | (645,211,264) |
| Increase in long-term borrowings | | 113,084,000 | 79,301,069 |
| Issuance of debentures | | - | 91,086,492 |
| Repayments of debentures | | (130,425,000) | (55,874,011) |
| Repayments of current portion of long-term borrowings | | (160,807,400) | (69,428,748) |
| Repayments of long-term borrowings | | (480,000) | - |
| Dividends paid to owners of the Parent Company | 25 | (49,541,072) | (49,541,072) |
| Dividends paid to non-controlling Interests | 25 | <u>(4,121,740)</u> | <u>-</u> |
| Net cash outflow from financing activities | | <u>(281,672,658)</u> | <u>(649,667,534)</u> |
| Net increase (decrease) in cash and cash equivalents | | <u>225,801,240</u> | <u>(171,896,900)</u> |
| Cash and cash equivalents at the beginning of the year | | 465,349,713 | 637,357,951 |
| Effects of exchange rate changes on cash and cash equivalents | | 3,000,263 | (111,338) |
| Cash and cash equivalents at the end of the year | | <u>₩ 694,151,216</u> | <u>₩ 465,349,713</u> |

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

Hankook Tire Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

1. General Information

General information of Hankook Tire Co., Ltd. (the Company), that is a controlling company in accordance with Korean IFRS 1110 *Consolidated Financial Statements*, and its subsidiaries (collectively referred to as the "Group") is as follows:

1.1 The Company

The Company was spun off from Hankook Tire Worldwide Co., Ltd. (formerly, Hankook Tire Co., Ltd.) on September 1, 2012 to manufacture and sell tires, tubes and alloy wheels. The Company's headquarters is located at Kangnam-Gu, Seoul, and eight manufacturing factories are located in Korea, China, Hungary, Indonesia and USA, including its subsidiaries. On October 4, 2012, the Company was relisted on the Korea stock exchange.

As at December 31, 2017 and 2016, the Company's shareholders are as follows:

| | 2017 | | 2016 | |
|----------------------------------|--------------------|-----------------------------|--------------------|-----------------------------|
| | Number of shares | Percentage of ownership (%) | Number of shares | Percentage of ownership (%) |
| Hankook Tire Worldwide Co., Ltd. | 37,162,521 | 30.00 | 31,174,527 | 25.16 |
| Yang Rai Cho | 7,019,903 | 5.66 | 13,007,897 | 10.50 |
| Hyun Bum Cho | 2,561,241 | 2.07 | 2,561,241 | 2.07 |
| Hyun Shick Cho | 799,241 | 0.65 | 799,241 | 0.65 |
| Other ¹ | 76,332,163 | 61.62 | 76,332,163 | 61.62 |
| | <u>123,875,069</u> | <u>100.00</u> | <u>123,875,069</u> | <u>100.00</u> |

¹ Including 22,388 treasury shares as at December 31, 2017.

1.2 Consolidated Subsidiaries

Details of the consolidated subsidiaries as of December 31, 2017 and 2016, are as follows:

| Name of entity | Location | Main business | Ownership interest held by the Group (%) | | Closing month |
|--|----------------|--|--|-------|---------------|
| | | | 2017 | 2016 | |
| Daehwa Engineering & Machinery Co., Ltd. | Korea | Manufacture of tire and tube manufacturing machine | 95.0 | 95.0 | December |
| Hankook Tire America Corp. | USA | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tyre U.K. Ltd. | United Kingdom | Sales of tires | 100.0 | 100.0 | December |
| Jiangsu Hankook Tire Co., Ltd. | China | Manufacture and sales of tires | 100.0 | 100.0 | December |
| Hankook Tire China Co., Ltd. | China | Manufacture and sales of tires | 100.0 | 100.0 | December |

Hankook Tire Co., Ltd. and Subsidiaries
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| Name of entity | Location | Main business | Ownership interest held by the Group (%) | | Closing month |
|---|-------------|------------------------------------|--|-------|---------------|
| | | | 2017 | 2016 | |
| Shanghai Hankook Tire Sales Co., Ltd. | China | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Netherlands B.V. | Netherlands | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Japan Corp. | Japan | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Canada Corp. | Canada | Sales of tires | 100.0 | 100.0 | December |
| Hankook Reifen Deutschland GmbH | Germany | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire France SARL | France | Sales of tires | 100.0 | 100.0 | December |
| Hankook Espana S. A. | Spain | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tyre Australia Pty., Ltd. | Australia | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Europe Holdings B.V. | Netherlands | Building European governance | 100.0 | 100.0 | December |
| Hankook Tire Hungary Ltd. | Hungary | Manufacture and sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Budapest Kereskedelmi Kft | Hungary | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Italia S.R.L. | Italy | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Europe GmbH | Germany | Support to sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Rus LLC | Russia | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire DE Mexico, S.A. DE C.V. | Mexico | Sales of tires | 100.0 | 100.0 | December |
| Chongqing Hankooktire Co., Ltd. | China | Manufacture and sales of tires | 100.0 | 100.0 | December |
| PT. HANKOOKTIRE INDONESIA. | Indonesia | Manufacture and sales of tires | 99.9 | 99.9 | December |
| MK Mold (Jiaxing) Co., LTD. | China | Manufacture and sales of tire mold | 50.1 | 50.1 | December |
| MK Technology Co., Ltd. | Korea | Manufacture and sales of tire mold | 50.1 | 50.1 | December |
| Hankook Tire Singapore PTE., Ltd. | Singapore | Trade and consulting | 100.0 | 100.0 | December |
| Hankook Tire Malaysia SDN.BHD. | Malaysia | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire India Itp | India | Sales of tires | 100.0 | - | December |
| Hankook Tire Sweden AB | Sweden | Sales of tires | 100.0 | 100.0 | December |
| Beijing Jielun Trading Company Co.,Ltd. | China | Sales of tires | 100.0 | 100.0 | December |
| Hankook Lastikleri A.S. | Turkey | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Polska Sp. z o.o. | Poland | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Thailand Co.,Ltd. | Thailand | Sales of tires | 99.9 | 99.9 | December |
| Hankook Tire de Colombia Ltda. | Colombia | Sales of tires | 100.0 | 100.0 | December |
| Hankook Tire Manufacturing Tennessee LP | USA | Manufacture and sales of tires | 100.0 | 100.0 | December |
| Hankook Tire America Holdings I, LLC | USA | Building American governance | 100.0 | 100.0 | December |
| Hankook Tire America Holdings II, LLC | USA | Building American governance | 100.0 | 100.0 | December |
| MK Technology (CHONGQING) Mould Co., Ltd. | China | Manufacture and sales of tire mold | 50.1 | 50.1 | December |

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

| Name of entity | Location | Main business | Ownership interest held by the Group (%) | | Closing month |
|--|-----------|---------------------------------------|--|-------|---------------|
| | | | 2017 | 2016 | |
| Hankook Tire Ceska Republika s.r.o. | Czech | Sales of tires | 100.0 | 100.0 | December |
| Hankook Donggeurami Partners Co., Ltd. | Korea | Facilities management service, baking | 100.0 | 100.0 | December |
| HK Motors Co., Ltd. | Korea | Sale of parts of vehicles | - | 100.0 | December |
| Hankook Tyre Australia Retail Pty., Ltd. | Australia | Distribution of tires | 100.0 | - | December |
| JAX Quickfit Franchising Systems Unit Trust. | Australia | Distribution of tires | 100.0 | - | December |
| JAX Quickfit Franchising Systems Pty Ltd. | Australia | Distribution of tires | 100.0 | - | December |
| JAX Quickfit Properties Pty Ltd. | Australia | Distribution of tires | 100.0 | - | December |
| Hankook Tire Latam, S.A. | Panama | Trade and consulting | 100.0 | - | December |
| Hankook Tire Latin America Distribution Center, S.A. | Panama | Sales of tires | 100.0 | - | December |

1.3 Changes in Scope for Consolidation

Subsidiaries newly included in the consolidation or excluded from the consolidation during the year ended December 31, 2017, are as follow:

| Subsidiary | Reason |
|--|---|
| Newly added subsidiaries | |
| Hankook Tyre Australia Retail Pty., Ltd. | Newly established |
| JAX Quickfit Franchising Systems Unit Trust. | Newly acquired |
| JAX Quickfit Franchising Systems Pty Ltd. | Newly acquired |
| JAX Quickfit Properties Pty Ltd. | Newly acquired |
| Hankook Tires India LLP. | Newly invested |
| Hankook Tire Latam, S.A. | Newly invested |
| Hankook Tire Latin America Distribution Center, S.A. | Newly invested |
| Excluded subsidiaries | |
| HK Motors Co., Ltd. | Disposal to HK Automotive, a subsidiary of Hankook Tire Worldwide Co., Ltd. |

Hankook Tire Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2017 and 2016

2. Significant Accounting Policies

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

2.1 Basis of preparation

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

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

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

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

2.2 Changes in Accounting Policies and Disclosures

(a) New and amended standards adopted by the Group

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

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

Amendments to Korean IFRS 1007 *Statement of Cash flows* require to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows (Note 37).

*- Amendments to Korean IFRS 1012 *Income Tax**

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

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in practice.

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

Amendments to Korean IFRS 1112 clarify when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sales in accordance with Korean IFRS 1105, the entity is required to disclose other information except for summarized financial information in accordance with Korean IFRS 1112.

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

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

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

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

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

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

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

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

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

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

- Enactment of Korean IFRS 1116 *Leases*

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

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

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

Lessee accounting

A lessee shall apply this standard to its leases either:

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

The Group has not yet elected the application method.

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

Lessor accounting

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

- Enactment of Korean IFRS 1109 *Financial Instruments*

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

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

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

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

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

(a) Classification and Measurement of Financial Assets

When implementing Korean IFRS 1109, the classification of financial assets will be driven by the Group's business model for managing the financial assets and contractual terms of cash flow. The

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following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

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

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

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

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

As at December 31, 2017, the Group owns loans and receivables of ₩1,981,772,856 thousand, financial assets at fair value through profit or loss of ₩5,797,210 thousand and financial assets available-for-sales of ₩4,387,494 thousand.

According to Korean IFRS 1109, a debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. As at December 31, 2017, the Group measured loans and receivables of ₩ 1,981,772,856 thousand at amortized costs.

According to Korean IFRS 1109, equity instruments that are not held for trading, the Group can make an irrevocable election at initial recognition to classify the instruments as assets measured at fair value through other comprehensive income, which all subsequent changes in fair value being recognized in other comprehensive income and not recycled to profit or loss. As at December 31, 2017, the Group holds equity instruments of ₩ 4,387,494 thousand classified as financial assets available-for-sale and there is no recycled unrealized gain or loss arose from the equity instruments to profit or loss.

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According to Korean IFRS 1109, debt instruments those contractual cash flows do not represent solely payments of principal and interest and held for trading, and equity instruments that are not designated as instruments measured at fair value through other comprehensive income are measured at fair value through profit or loss. As at December 2017, the Group holds debt instruments classified as financial assets at fair value through profit or loss that amount to ₩ 5,797,210 thousand.

(b) Classification and Measurement of Financial Liabilities

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

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

As at December 31, 2017, total financial liabilities is ₩2,845,394,071 thousand of which ₩3,080,677 thousand are designated at fair value through profit or loss.

(c) Impairment: Financial Assets and Contract Assets

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

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

| Stage¹ | | Loss allowance |
|--------------------------|---|--|
| 1 | No significant increase in credit risk after initial recognition ² | 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) |
| 2 | Significant increase in credit risk after initial recognition | Lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument) |
| 3 | Credit-impaired | |

¹ A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. It is also

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required for contract assets or trade receivables that are not, according to Korean IFRS 1115 *Revenue from Contracts with Customers*, considered to contain a significant financing component. Additionally, the Group can elect an accounting policy of recognizing lifetime expected credit losses for all contract assets and/or all trade receivables, including those that contain a significant financing component.

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

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

As at December 31, 2017, the Group owns debt investment carried at amortized cost of ₩ 1,981,772,856 thousand (loans and receivables of ₩ 1,981,772,856 thousand). And, the Group recognized loss allowance of ₩7,502,168 thousand for these assets.

(d) Hedge Accounting

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

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

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

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- Enactment of Korean IFRS 1115 *Revenue from Contracts with Customers*

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

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

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

With the implementation of Korean IFRS 1115, the Group is organizing internal control process or modifying accounting system and analyzing its impact on the financial statements. The Group plans to perform detailed analysis on financial effects of applying the standard and disclose the result of the analysis in the notes on the financial statements as at March 31, 2018. The following areas are likely to be affected in general.

(a) Identify performance obligation

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

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(b) Variable consideration

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

2.3 Consolidation

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

(a) Subsidiaries

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

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

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

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

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(b) Associates

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

(c) Joint Arrangements

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

2.4 Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5 Financial Assets

(a) Classification and measurement

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets, loans and receivables,

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and held-to-maturity financial assets. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

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

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

(b) Impairment

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

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

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

(c) Derecognition

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

(d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability

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simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.6 Derivative Instruments

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

2.7 Inventories

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

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

2.8 Property, Plant and Equipment

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

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

| | Useful lives |
|-------------------------------|---------------|
| Buildings | 13 - 60 years |
| Structures | 2~50 |
| Machinery | 2~18 |
| Vehicles | 2~10 |
| Tools, furniture and fixtures | 2~30 |
| Molds | 8 |

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

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2.9 Borrowing Costs

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

2.10 Government Grants

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

2.11 Intangible Assets

Goodwill is measured as described in Note 2.3.(a), and carried at cost less accumulated impairment losses.

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

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

| | Useful lives |
|----------------------------|---------------------|
| Industrial property rights | 5 - 10 years |
| Other intangible assets | 3 - 50 years |

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2.12 Investment Property

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

2.13 Impairment of Non-financial Assets

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

2.14 Financial Liabilities

(a) Classification and measurement

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

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

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

(b) Derecognition

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

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2.15 Financial Guarantee Contracts

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

2.16 Provisions

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

The Group recognizes provision for future warranty claims and provision for litigations. These provisions are estimated based on warranty period provided, and past experience of it. When litigation or dispute regarding warranty has occur, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability, the Group recognizes the amount as provision.

2.17 Current and Deferred Tax

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

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

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

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

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

The Group recognizes a deferred tax liability all taxable temporary differences associated with

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investments in subsidiaries, associates, and interests in joint arrangements, except to the extent that the Group 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 Group recognizes a deferred tax asset for all deductible temporary differences arising from such investments to the extent that it is probable the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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

2.18 Employee Benefits

(a) Post-employment benefits

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

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

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

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

(b) Other long-term employee benefits

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

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2.19 Revenue Recognition

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

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

(a) Sale of goods

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

(b) Rendering of services

Revenue from rendering of services is recognized based on percentage of completion. The percentage of completion is measured on the basis of direct costs incurred to date relative to the estimated total costs.

(c) Royalty income

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

(d) Interest income

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

(e) Dividend income

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

(f) Rental income

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

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2.20 Segment Reporting

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

2.21 Approval of Issuance of the Financial Statements

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

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3. Critical Accounting Estimates and Assumptions

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

(a) Estimated goodwill impairment

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations (Note 16).

(b) Income taxes

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

If certain portion of the taxable income is not used for investments or increase in wages or dividends in accordance with the *Tax System For Recirculation of Corporate Income*, the Group may be liable to pay additional income tax calculated based on the tax laws. The new tax system is effective for three years from 2015. Accordingly, the measurement of current and deferred income tax is affected by the tax effects from the new tax system. As the Group's income tax is dependent on the investments, increase in wages and dividends, there is an uncertainty measuring the final tax effects (Note 33).

(c) Fair value of financial instruments

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

(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 22).

(d) Provisions

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

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4. Financial Risk Management

(a) Capital management

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

The debt ratios as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|-------------------------------------|-------------|---------------|-------------|---------------|
| Total liabilities | ₩ | 3,145,279,906 | ₩ | 3,660,493,919 |
| Total equity | | 6,373,506,245 | | 5,961,479,320 |
| Debt ratio | | 49.3% | | 61.40% |

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

(c) Financial risk management

1) Purpose of financial risk management

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

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

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

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2) Market risk

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

a) Foreign currency risk management

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

The sensitivity analysis includes outstanding monetary items denominated in foreign currencies, and foreign exchange translations are adjusted based on assumption that Korean won has weakened/strengthened by 10% at the end of the reporting period. The sensitivity analysis includes monetary items denominated in foreign currencies.

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

| <i>(in thousands of Korean won)</i> | <u>2017</u> | <u>2016</u> |
|-------------------------------------|--------------|--------------|
| Weakened | 19,427,808 | 44,157,650 |
| Strengthened | (19,427,808) | (44,157,650) |

b) Interest rate risk

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

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

| <i>(in thousands of Korean won)</i> | | <u>Impact on profit before tax</u> | | | |
|-------------------------------------|----------|------------------------------------|----------|-------------|-----------|
| | | <u>2017</u> | | <u>2016</u> | |
| 10 bp | Increase | ₩ | (45,732) | ₩ | (668,628) |
| | Decrease | | 45,732 | | 668,628 |

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In order to reduce the impact of changes in interest rates, the Group entered into interest rate swap contracts. A summary of the terms of outstanding interest rate swap contracts as at December 31, 2017 is as follows:

(in thousands of USD)

| | Contract date | Due date | Notional amount | Agreed interest rate(%) | |
|-----------------|---------------|------------|-----------------|-------------------------|-------|
| | | | | Buy | Sell |
| Bank of America | 2016.12.13 | 2018.12.13 | 320,000 | 3M Libor | 1.27% |
| Bank of America | 2016.12.13 | 2019.6.13 | 80,000 | 3M Libor | 1.33% |
| JP Morgan | 2017.3.13 | 2020.2.13 | 50,000 | 1M Libor | 1.75% |
| JP Morgan | 2017.3.13 | 2020.3.13 | 50,000 | 1M Libor | 1.78% |
| | | | 500,000 | | |

c) Other price risks

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

Price risk

The Group is exposed to equity securities price risk arises from investments held by the Group that are classified either as available-for-sale in the consolidated statement of financial position. If the equity securities price has increased/decreased by 5%, the Group's other comprehensive income would be increased/decreased by ₩174,054 thousand (2016: ₩141,042 thousand due to changes in fair value of available-for-sales financial assets for the year ended December 31, 2017.

There is no significant changes in the Group's price sensitivity from previous year.

3) Credit risk management

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

Credit ratings of trade receivables are evaluated constantly and credit guarantee contracts are made, if necessary. The maximum exposure to credit risk is not disclosed as the book amount of financial assets exposed to credit risk are the best presentation of the maximum exposure to credit risk.

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4) Liquidity risk management

The Group has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Board of Directors has a full responsibility of the liquidity risk management. The Group manages liquidity risk by maintaining adequate reserves and credit facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Note 38 explains details of unused balances of credit facility agreements entered through the Group's discretion to reduce the liquidity risk.

a) Details of liquidity and interest rate risk

The table below discloses remaining contractual maturity of non-derivative financial liabilities and derivatives which will be settled net in cash in detail. Derivatives which will be settled net in cash consist of interest swap contract to manage interest risk of the Group. The table below is prepared based on undiscounted cash flow of non-derivative financial liabilities. Contractual maturity is based on the earliest day when the payment can be claimed to the Group.

(in thousands of Korean won)

| | 2017 | | | | | |
|-----------------------------|----------------------|-------------------------------|----------------------|------------------------|----------------------|----------------------|
| | Book amount | Contractual cash flows | Within 1 year | Residual amount | | |
| | | | | 1 to 2 years | 2 to 5 years | Over 5 years |
| Trade payables | ₩ 382,686,120 | ₩ 382,686,120 | ₩ 382,686,120 | ₩ - | ₩ - | ₩ - |
| Non-trade payables | 247,764,124 | 247,764,124 | 247,764,124 | - | - | - |
| Accrued expenses | 234,274,369 | 234,274,369 | 234,274,369 | - | - | - |
| Dividends payable | 24,314 | 24,314 | 24,314 | - | - | - |
| Leasehold deposits received | 4,104,943 | 4,104,943 | 2,753,000 | 1,311,943 | 40,000 | - |
| Short-term borrowings | 866,387,152 | 866,019,489 | 866,019,489 | - | - | - |
| Debentures | 332,009,310 | 348,540,527 | 125,309,873 | 4,789,158 | 218,441,496 | - |
| | <u>₩ 775,063,062</u> | <u>₩ 830,855,708</u> | <u>₩ 261,443,319</u> | <u>₩ 10,589,152</u> | <u>₩ 265,971,623</u> | <u>₩ 292,851,614</u> |

(in thousands of Korean won)

| | 2016 | | | | | |
|-----------------------------|------------------------|-------------------------------|------------------------|------------------------|----------------------|----------------------|
| | Book amount | Contractual cash flows | Within 1 year | Residual amount | | |
| | | | | 1 to 2 years | 2 to 5 years | Over 5 years |
| Trade payables | ₩ 404,935,185 | ₩ 404,935,185 | ₩ 404,935,185 | ₩ - | ₩ - | ₩ - |
| Non-trade payables | 299,186,744 | 299,186,744 | 299,186,744 | - | - | - |
| Accrued expenses | 250,630,376 | 250,630,376 | 250,630,376 | - | - | - |
| Dividends payable | 19,485 | 19,485 | 19,485 | - | - | - |
| Leasehold deposits received | 4,509,698 | 4,509,698 | 3,462,000 | 1,017,698 | 30,000 | - |
| Short-term borrowings | 868,517,354 | 886,634,122 | 886,634,122 | - | - | - |
| Long-term borrowings | 519,041,878 | 529,868,791 | 258,366,861 | 73,703,438 | 88,064,987 | 109,733,505 |
| Debentures | 939,775,924 | 956,637,428 | 436,288,888 | 260,117,938 | 260,230,602 | - |
| | <u>₩ 3,286,616,644</u> | <u>₩ 3,332,421,829</u> | <u>₩ 2,539,523,661</u> | <u>₩ 334,839,074</u> | <u>₩ 348,325,589</u> | <u>₩ 109,733,505</u> |

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As at December 31, 2017, gross settlement contracts consist of currency forward contract, which will be settled within 11 months. This contract is not included in above table and non-discounted contractual cash flow from the contract is as follows:

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|-------------------------------------|-------------|-------------|-------------|-------------|
| Contractual cash inflow | ₩ | 390,131,705 | ₩ | 216,060,834 |
| Contractual cash outflow | | 389,787,960 | | 212,369,175 |

5. Fair Value

For the year ended December 31, 2017, there were no changes in business environment and economic environment that have significant impacts on the fair value of assets and liabilities of the Group.

5.1 Fair Value of Financial Instruments by Category

Carrying amount and fair value of financial instruments by category as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|-------------------------------------|------------------------|-------------------|------------------------|-------------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets ¹ | | | | |
| Available-for-sale financial assets | ₩ 3,481,074 | ₩ 3,481,074 | ₩ 2,820,844 | ₩ 2,820,844 |
| Financial derivative assets | 5,797,210 | 5,797,210 | 4,735,036 | 4,735,036 |
| Financial liabilities ¹ | | | | |
| Financial derivative liabilities | 3,080,677 | 3,080,677 | 1,189,296 | 1,189,296 |

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

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

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5.2 Financial Instrument Measured at Cost

Details of financial instruments measured at cost as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|-------------------------------------|-------------|---------|-------------|-----------|
| Available-for-sale financial assets | | | | |
| Unlisted securities ¹ | ₩ | 906,420 | ₩ | 1,006,420 |

¹ The unlisted securities stated in the table are measured at historical cost because they are issued by small and medium enterprises so that the variability of estimated cash flows is significant and the probability of the various estimates cannot be reasonably assessed.

5.3 Fair value Hierarchy

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

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

Fair value hierarchy classifications of the financial instruments that are measured at fair value or its fair value is disclosed as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | 2017 | | | |
|-------------------------------------|----------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Available-for-sale financial assets | ₩ 3,481,074 | ₩ - | ₩ - | ₩ 3,481,074 |
| Financial derivative assets | - | 5,797,210 | - | 5,797,210 |
| Financial derivative liabilities | - | 3,080,677 | - | 3,080,677 |

| <i>(in thousands of Korean won)</i> | 2016 | | | |
|-------------------------------------|----------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Available-for-sale financial assets | ₩ 2,820,844 | ₩ - | ₩ - | ₩ 2,820,844 |
| Financial derivative assets | - | 4,735,036 | - | 4,735,036 |
| Financial derivative liabilities | - | 1,189,296 | - | 1,189,296 |

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

The Group's policy is to recognize transfers between levels of the fair value at the date of the event or change in circumstances that caused the transfer. There were no transfers between levels of each fair value hierarchy of financial instrument during the reporting period.

5.5 Valuation Technique and the Inputs

Valuation techniques and inputs used in level2 fair value measurements are as follows:

| | | 2017 | | | |
|-------------------------------------|-------------------|--------------|-----------------------------|--|---------------|
| <i>(in thousands of Korean won)</i> | Fair value | Level | Valuation techniques | Inputs | |
| Financial derivative assets | | | | | |
| Interest rate swap | ₩ 2,372,783 | 2 | Option pricing model | Underlying asset price, credit risk adjusted discount rate, underlying asset variability | |
| Currency forward contract | 3,424,427 | 2 | Discounted cash flow model | | Discount rate |
| Financial derivative liabilities | | | | | |
| Currency forward contract | 3,080,677 | 2 | Discounted cash flow model | Discount rate | |
| | | 2016 | | | |
| <i>(in thousands of Korean won)</i> | Fair value | Level | Valuation techniques | Inputs | |
| Financial derivative assets | | | | | |
| Interest rate swaps | ₩ 101,918 | 2 | Option pricing model | Underlying asset price, credit risk adjusted discount rate, underlying asset variability | |
| Currency forward contract | 4,633,118 | 2 | Discounted cash flow model | | Discount rate |
| Financial derivative liabilities | | | | | |
| Interest rate swaps | 460 | 2 | Option pricing model | Underlying asset price, credit risk adjusted discount rate, underlying asset variability | |
| Currency forward contract | 1,188,836 | 2 | Discounted cash flow model | | Discount rate |

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6. Financial Instrument by Category

6.1 Carrying Amounts of Financial Instruments by Category

Categorizations of financial assets and liabilities as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

| | | 2017 | 2016 |
|-------------------------------------|-------------------------------------|------------------------|------------------------|
| Financial assets | | | |
| Available-for-sale financial assets | Available-for-sale financial assets | ₩ 4,387,494 | ₩ 3,827,264 |
| Derivatives | Financial derivative assets | 5,797,210 | 4,735,036 |
| Loans and receivables | Cash and cash equivalents | 694,151,216 | 465,349,713 |
| | Short-term financial assets | 4,343,731 | 157,285,294 |
| | Trade receivables | 1,157,746,639 | 1,058,369,627 |
| | Non-trade receivables(current) | 92,225,063 | 122,979,618 |
| | Non-trade receivables(non-current) | 972,439 | - |
| | Accrued income | 4,033,356 | 3,010,835 |
| | Deposits provided (current) | 2,576,859 | 3,591,984 |
| | Deposits provided (non-current) | 9,857,304 | 10,450,302 |
| | Short-term loans | 4,345,407 | 3,730,047 |
| | Long-term loans | 11,459,847 | 6,466,865 |
| | Long-term financial assets | 60,995 | 66,970 |
| | | <u>₩ 1,991,957,560</u> | <u>₩ 1,839,863,555</u> |

(in thousands of Korean won)

| | | 2017 | 2016 |
|--|---|------------------------|------------------------|
| Financial liabilities | | | |
| Derivatives | Financial derivative liabilities | ₩ 3,080,677 | ₩ 1,189,296 |
| Financial liabilities at amortized cost | Trade payables | 382,686,120 | 404,935,185 |
| | Non-trade payables | 247,764,124 | 299,186,744 |
| | Accrued expenses | 234,274,369 | 250,630,376 |
| | Dividends payable | 24,314 | 19,485 |
| | Borrowings (current) | 580,307,192 | 759,055,518 |
| | Borrowings (non-current) | 739,391,689 | 1,075,349,043 |
| | Leasehold deposits received (current) | 2,753,000 | 3,462,000 |
| | Leasehold deposits received (non-current) | 1,351,943 | 1,047,698 |
| Other financial liabilities ¹ | Borrowings (current) | 653,760,643 | 492,930,595 |
| | | <u>₩ 2,845,394,071</u> | <u>₩ 3,287,805,940</u> |

¹Other financial liabilities relate to transfers of financial liabilities not qualify for derecognition that is not subject to categorization of financial liabilities.

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6.2 Net Gains or Losses by Category of Financial Instruments

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

(in thousands of Korean won)

| | 2017 | 2016 |
|--|-----------------------|-----------------------|
| Derivatives | | |
| Gains or losses on valuation of derivatives | ₩ 666,742 | ₩ 4,238,154 |
| Gains or losses on transaction of derivatives | (1,184,238) | 4,130,982 |
| Available-for-sale financial assets | | |
| Interest income | 924,537 | 159,343 |
| Gains or losses on disposal | (108) | (789) |
| Impairment loss on available-for-sale financial assets | (100,000) | - |
| Loans and receivables | | |
| Interest income | 11,890,324 | 6,800,616 |
| Gains or losses on foreign currency transaction | (44,053,961) | 31,173,582 |
| Gains or losses on foreign currency translation | (53,865,215) | (24,217,798) |
| Impairment loss on trade receivables | (622,975) | (791,255) |
| Financial liabilities measured at amortized cost | | |
| Interest expense | (36,561,997) | (35,780,063) |
| Gains or losses on foreign currency transaction | 15,940,657 | (30,165,209) |
| Gains or losses on foreign currency translation | 12,764,060 | 1,308,642 |
| Other financial liabilities | | |
| Interest expense | (22,085,118) | (9,777,575) |
| Gains or losses on foreign currency transaction | 25,530,923 | (21,107,793) |
| Gains or losses on foreign currency translation | 16,658,177 | - |
| | <u>₩ (74,098,192)</u> | <u>₩ (74,029,163)</u> |

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7. Trade and Other Receivables

Details of trade and other receivable as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

| | 2017 | | |
|-----------------------|------------------------|---------------------------------------|------------------------|
| | Gross amount | Less: Provision for impairment | Net amount |
| Current | | | |
| Trade receivables | ₩ 1,165,137,739 | ₩ (7,391,100) | ₩ 1,157,746,639 |
| Non-trade receivables | 92,336,131 | (111,068) | 92,225,063 |
| Accrued income | 4,033,356 | - | 4,033,356 |
| | <u>₩ 1,261,507,226</u> | <u>₩ (7,502,168)</u> | <u>₩ 1,254,005,058</u> |
| Non-Current | | | |
| Non-trade receivables | ₩ 972,439 | - | 972,439 |

(in thousands of Korean won)

| | 2016 | | |
|-----------------------|------------------------|---------------------------------------|------------------------|
| | Gross amount | Less: Provision for impairment | Net amount |
| Trade receivables | ₩ 1,066,886,737 | ₩ (8,517,110) | ₩ 1,058,369,627 |
| Non-trade receivables | 123,114,452 | (134,834) | 122,979,618 |
| Accrued income | 3,010,835 | - | 3,010,835 |
| | <u>₩ 1,193,012,024</u> | <u>₩ (8,651,944)</u> | <u>₩ 1,184,360,080</u> |

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

(in thousands of Korean won)

| | 2017 | | |
|----------------------------|--------------------------|------------------------------|--------------------|
| | Trade receivables | Non-trade receivables | Total |
| Beginning balance | ₩ 8,517,110 | ₩ 134,834 | ₩ 8,651,944 |
| Impairment loss (reversal) | 669,743 | (46,768) | 622,975 |
| Write-offs | (1,476,926) | (10,840) | (1,487,766) |
| Exchange differences | (318,827) | 33,842 | (284,985) |
| Ending balance | <u>₩ 7,391,100</u> | <u>₩ 111,068</u> | <u>₩ 7,502,168</u> |

(in thousands of Korean won)

| | 2016 | | |
|----------------------------|--------------------------|------------------------------|--------------------|
| | Trade receivables | Non-trade receivables | Total |
| Beginning balance | ₩ 9,499,868 | ₩ 422,364 | ₩ 9,922,232 |
| Impairment loss (reversal) | 718,524 | 72,731 | 791,255 |
| Write-offs | (1,215,650) | (285,682) | (1,501,332) |
| Exchange differences | (485,632) | (74,579) | (560,211) |
| Ending balance | <u>₩ 8,517,110</u> | <u>₩ 134,834</u> | <u>₩ 8,651,944</u> |

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Credit risk and provision for impairment

The above trade and other receivables are classified as loans and receivables and measured at amortized cost. The Group considers changes in credit ratings of trade receivables from the commencement date of the credit granting to the end of the reporting period in determining the recoverability of the trade receivables.

The aging analysis of the trade receivables as at December 31, 2017 and 2016, is as follows:

| <i>(in thousands of Korean won)</i> | 2017 | | |
|-------------------------------------|--------------------------|--------------------------|------------------------|
| | Trade receivables | Other receivables | Total |
| Receivables not past due | ₩ 894,797,483 | ₩ 95,457,187 | ₩ 990,254,670 |
| Past due but not impaired : | | | |
| Below 3 months | 192,577,045 | 1,470,957 | 194,048,002 |
| 3 to 6 months | 35,031,633 | 240,285 | 35,271,918 |
| Above 6 months | 29,159,495 | 92,183 | 29,251,678 |
| | 256,768,173 | 1,803,425 | 258,571,598 |
| Impaired | 13,572,083 | 81,314 | 13,653,397 |
| | <u>₩ 1,165,137,739</u> | <u>₩ 97,341,926</u> | <u>₩ 1,262,479,665</u> |

| <i>(in thousands of Korean won)</i> | 2016 | | |
|-------------------------------------|--------------------------|--------------------------|------------------------|
| | Trade receivables | Other receivables | Total |
| Receivables not past due | ₩ 840,001,386 | ₩ 114,312,068 | ₩ 954,313,454 |
| Past due but not impaired : | | | |
| Below 3 months | 183,575,600 | 8,310,585 | 191,886,185 |
| 3 to 6 months | 31,278,224 | 3,190,429 | 34,468,653 |
| Above 6 months | 3,319,079 | 180,616 | 3,499,695 |
| | 218,172,903 | 11,681,630 | 229,854,533 |
| Impaired | 8,712,448 | 131,589 | 8,844,037 |
| | <u>₩ 1,066,886,737</u> | <u>₩ 126,125,287</u> | <u>₩ 1,193,012,024</u> |

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8. Inventories

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

| <i>(in thousands of Korean won)</i> | December 31, 2017 | | | 2017 | |
|---|--------------------------|----------------------------|--------------------------------------|-----------------------------|----------------------------------|
| | Acquisition cost | Inventory valuation | Inventory valuation allowance | Exchange differences | Valuation loss (reversal) |
| Finished goods | ₩ 978,835,335 | ₩ 947,765,565 | ₩ 31,069,770 | ₩ (2,425,833) | ₩ 24,110,789 |
| Work in process | 40,620,698 | 40,620,698 | - | - | - |
| Raw materials | 356,302,413 | 355,455,060 | 847,353 | (36,321) | 216,946 |
| Supplies | 31,005,128 | 31,005,128 | - | - | - |
| Materials in transit | 119,544,711 | 119,544,711 | - | - | - |
| | <u>₩ 1,526,308,285</u> | <u>₩ 1,494,391,162</u> | <u>₩ 31,917,123</u> | <u>₩ (2,462,154)</u> | <u>₩ 24,327,735</u> |

| <i>(in thousands of Korean won)</i> | December 31, 2016 | | | 2016 | |
|---|--------------------------|----------------------------|--------------------------------------|-----------------------------|----------------------------------|
| | Acquisition cost | Inventory valuation | Inventory valuation allowance | Exchange differences | Valuation loss (reversal) |
| Finished goods | ₩ 986,611,046 | ₩ 977,226,232 | ₩ 9,384,814 | ₩ (75,799) | ₩ 658,328 |
| Work in process | 38,151,426 | 38,151,426 | - | - | - |
| Raw materials | 264,502,195 | 263,835,467 | 666,728 | - | (879,965) |
| Supplies | 27,702,174 | 27,702,174 | - | - | - |
| Materials in transit | 129,391,877 | 129,391,877 | - | - | - |
| | <u>₩ 1,446,358,718</u> | <u>₩ 1,436,307,176</u> | <u>₩ 10,051,542</u> | <u>₩ (75,799)</u> | <u>₩ (221,637)</u> |

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

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9. Other Financial Assets

Details of other financial assets as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

| | 2017 | | 2016 | |
|-----------------------------|---------------------|-------------------|---------------------|---------------------|
| | Current | Non-current | Current | Non-current |
| Loans | ₩ 4,345,407 | 11,459,847 | ₩ 3,730,047 | ₩ 6,466,865 |
| Guarantee deposits provided | 2,576,859 | 9,857,304 | 3,591,984 | 10,450,302 |
| Financial derivative assets | 4,751,634 | 1,045,576 | 4,633,118 | 101,918 |
| | <u>₩ 11,673,900</u> | <u>22,362,727</u> | <u>₩ 11,955,149</u> | <u>₩ 17,019,085</u> |

10. Other Assets

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

(in thousands of Korean won)

| | 2017 | | 2016 | |
|----------------------------|---------------------|-------------------|---------------------|---------------------|
| | Current | Non-current | Current | Non-current |
| Advance payments | ₩ 7,488,420 | 54,656,497 | ₩ 9,189,389 | ₩ 57,169,274 |
| Prepaid expenses | 20,770,599 | 32,668,820 | 18,657,541 | 35,107,387 |
| Net defined benefit assets | - | 11,690,944 | - | - |
| Others | 47,622,671 | 640 | 9,957,317 | 1,756,734 |
| | <u>₩ 75,881,690</u> | <u>99,016,901</u> | <u>₩ 37,804,247</u> | <u>₩ 94,033,395</u> |

11. Available-for-sale Financial Assets

Details of available-for-sale financial assets as at December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

| | 2017 | 2016 |
|---------------------|--------------------|--------------------|
| Equity instrument | | |
| Listed securities | ₩ 3,481,074 | ₩ 2,820,844 |
| Unlisted securities | 906,420 | 1,006,420 |
| | <u>₩ 4,387,494</u> | <u>₩ 3,827,264</u> |

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12. Investment in Associates

Details of the Group's investment in associates as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | Closing month | Location | Number of shares | Percentage of ownership (%) | 2017 | |
|--------------------------------------|---------------|----------|------------------|-----------------------------|------------------|-----------------|
| | | | | | Acquisition cost | Book amount |
| Hanon Systems Co., Ltd. ¹ | December | Korea | 104,031,000 | 19.49 | ₩ 1,061,740,386 | ₩ 1,090,392,140 |

| <i>(in thousands of Korean won)</i> | Closing month | Location | Number of shares | Percentage of ownership (%) | 2016 | |
|--------------------------------------|---------------|----------|------------------|-----------------------------|------------------|-----------------|
| | | | | | Acquisition cost | Book amount |
| Hanon Systems Co., Ltd. ¹ | December | Korea | 104,031,000 | 19.49 | ₩ 1,061,740,386 | ₩ 1,081,080,298 |

¹ As at December 31, 2017, the fair value of marketable investment in associates is ₩1,446,030,900 thousand (2016: ₩1,071,519,300 thousand).

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

| <i>(in thousands of Korean won)</i> | 2017 | | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|---------------------|----------------------------|-------------------|
| | Assets | Liabilities | Equity | Sales | Profit for the year | Total comprehensive income | Dividend received |
| Hanon Systems Co., Ltd. | ₩4,133,390,581 | ₩2,090,959,189 | ₩2,042,431,392 | ₩5,582,423,807 | ₩309,872,150 | ₩328,301,754 | ₩31,209,300 |

| <i>(in thousands of Korean won)</i> | 2016 | | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|---------------------|----------------------------|-------------------|
| | Assets | Liabilities | Equity | Sales | Profit for the year | Total comprehensive income | Dividend received |
| Hanon Systems Co., Ltd. | ₩3,859,737,521 | ₩1,974,831,434 | ₩1,884,906,087 | ₩5,703,714,577 | ₩303,755,866 | ₩ 277,081,907 | ₩35,786,664 |

Details of the valuation of equity-accounted investees of the Group as of December 31, 2017 and 2016, is as follows:

| <i>(In thousands of Korean won)</i> | | 2017 | 2016 |
|-------------------------------------|---|-----------------|-----------------|
| Hanon Systems Co., Ltd. | Beginning balance | ₩ 1,081,080,298 | ₩ 1,076,965,174 |
| | Share of profit of associates accounted for using the equity method | 36,104,778 | 44,851,982 |
| | Net defined benefit liabilities | 1,715,852 | (302,162) |
| | Cash flow hedges | 12,321,576 | (3,056,805) |
| | Exchange differences on translating foreign operations | (9,752,436) | (1,632,507) |
| | Dividend | (31,209,300) | (35,786,664) |
| | Other | 131,372 | 41,280 |
| | Ending balance | ₩ 1,090,392,140 | ₩ 1,081,080,298 |

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13. Investment in Subsidiaries

The summarized financial information of the subsidiaries as at and for the years ended December 31, 2017 and 2016, are as follows:

| | 2017 | | | |
|---|---------------|--------------------|-----------------|---------------------------------------|
| | Assets | Liabilities | Sales | Profit (loss) for the yaer |
| (in thousands of Korean won) | | | | |
| Hankook Tire America Corp. | ₩ 843,704,801 | ₩ 454,868,681 | ₩ 1,669,764,669 | ₩ 15,141,876 |
| Hankook Tire Canada Corp. | 59,377,893 | 40,555,843 | 185,222,599 | 2,435,371 |
| Hankook Tire DE Mexico, S.A. DE C.V. | 49,080,693 | 46,720,958 | 86,737,331 | 1,584,841 |
| Hankook Tire de Colombia Ltda. | 11,733,424 | 10,631,355 | 48,161,725 | 1,061,098 |
| Hankook Tire Europe Holdings B.V. | 311,631,626 | 23,489 | - | 32,098,121 |
| Hankook Tire Netherlands B.V. | 155,668,646 | 134,792,089 | 303,253,487 | 3,316,343 |
| Hankook Tyre U.K. Ltd. | 123,686,749 | 106,520,413 | 203,191,575 | 1,221,624 |
| Hankook Reifen Deutschland GmbH | 257,357,607 | 229,240,932 | 536,405,640 | 954,015 |
| Hankook Tire France SARL | 76,370,857 | 66,229,033 | 163,707,576 | 1,991,842 |
| Hankook Tire Italia S.R.L. | 119,208,586 | 103,760,818 | 180,760,846 | 2,585,808 |
| Hankook Espana S.A. | 56,418,451 | 45,165,541 | 110,232,479 | 1,523,687 |
| Hankook Tire Europe GmbH | 198,939,745 | 194,081,444 | 23,943,459 | 32,341 |
| Hankook Tire Hungary Ltd. | 1,225,260,038 | 119,762,401 | 911,868,843 | 177,871,329 |
| Hankook Tire Budapest Kereskedelmi Kft | 37,923,523 | 26,689,394 | 68,535,471 | 668,260 |
| Hankook Tire Rus LLC | 61,574,734 | 55,761,472 | 149,133,996 | 612,177 |
| Hankook Tire Japan Corp. | 19,136,774 | 20,073,356 | 54,294,027 | 190,161 |
| Hankook Tyre Australia Pty. | 51,790,406 | 45,396,933 | 99,644,388 | 3,066,327 |
| Hankook Tire China Co., Ltd. | 1,207,972,255 | 202,088,912 | 657,147,707 | 39,454,634 |
| Jiangsu Hankook Tire Co., Ltd. | 672,414,493 | 157,934,711 | 612,033,995 | 18,267,297 |
| Shanghai Hankook Tire Sales Co., Ltd. | 455,400,114 | 450,068,788 | 944,905,847 | 7,051,653 |
| Daehwa Engineering & Machinery Co., Ltd. | 57,737,474 | 13,281,152 | 45,470,935 | (3,738,902) |
| Chongqing Hankooktire Co., Ltd. | 607,954,803 | 485,191,668 | 394,992,043 | 17,301,284 |
| PT. HANKOOK TIRE INDONESIA | 656,171,956 | 179,836,407 | 474,555,103 | 21,905,165 |
| MK Mold (Jiaxing) Co., LTD | 20,081,935 | 2,686,303 | 17,614,308 | 3,627,483 |
| MK Technology Co., Ltd. | 109,841,057 | 10,440,717 | 75,613,762 | 25,987,058 |
| Hankook Tire Singapore PTE., Ltd. | 197,067,288 | 191,880,278 | 382,686,381 | 1,230,510 |
| Hankook Tire Malaysia SDN.BHD. | 10,114,366 | 15,992,089 | 32,003,208 | 55,684 |
| Hankook Tire Sweden AB | 21,665,215 | 19,327,398 | 44,060,680 | 854,033 |
| Beijing Jielun Trading Company Co.,Ltd | 2,569,787 | 2,351,445 | 31,949,704 | (40,680) |
| Hankook Lastikleri A.S. | 29,357,333 | 29,971,338 | 72,030,174 | (730,230) |
| Hankook Tire Polska Sp. z o.o. | 36,501,627 | 32,201,069 | 82,375,939 | 984,147 |
| Hankook Tire (Thailand) Co.,Ltd. | 8,598,891 | 8,130,534 | 19,277,829 | 625,371 |
| Hankook Tire Manufacturing Tennessee LP | 762,851,440 | 627,176,172 | 54,616,641 | (43,657,702) |
| Hankook Tire America Holdings I, LLC | 1,893,155 | - | - | - |
| Hankook Tire America Holdings II, LLC | 186,438,327 | - | - | - |
| MK Technology (CHONGQING) Mould Co., Ltd. | 1,793,771 | 635,177 | 1,905,951 | 98,501 |

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| | 2017 | | | |
|--|---------------|--------------------|--------------|---------------------------------------|
| | Assets | Liabilities | Sales | Profit (loss) for the year |
| Hankook Tire Ceska Republika s.r.o. | 34,979,627 | 31,394,621 | 86,967,465 | 1,273,582 |
| Hankook Donggeurami Partners Co., Ltd. | 1,980,543 | 1,691,197 | 4,250,326 | 135,781 |
| Hankook Tyre Australia Retail Pty., Ltd. ¹ | 74,111,951 | 19,549,297 | 21,116,266 | (4,749,975) |
| Hankook Tires India llp. | 1,805,688 | 720,112 | 488,320 | (331,302) |
| Hankook Tire Latam, S.A. | 198,389 | 139,562 | 120,057 | 5,548 |
| Hankook Tire Latin America Distribution Center, S.A. | 22,726,774 | 22,612,898 | 8,287,644 | (219,058) |

¹ Financial information including JAX Quickfit Franchising Systems Unit Trust., JAX Quickfit Franchising Systems Pty Ltd., JAX Quickfit Properties Pty Ltd., which are 100% owned by Hankook Tyre Australia Retail Pty., Ltd.

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(in thousands of Korean won)

| | 2016 | | | |
|---|---------------|--------------------|----------------|---------------------------------------|
| | Assets | Liabilities | Sales | Profit (loss) for the year |
| Hankook Tire America Corp. | ₩ 953,728,467 | ₩ 556,780,855 | ₩1,662,909,448 | ₩17,682,437 |
| Hankook Tire Canada Corp. | 79,851,884 | 62,601,817 | 154,645,902 | 1,038,665 |
| Hankook Tire DE Mexico, S.A. DE C.V. | 27,341,580 | 26,352,379 | 70,478,356 | 1,555,964 |
| Hankook Tire de Colombia Ltda. | 12,167,799 | 12,060,223 | 16,029,512 | 108,850 |
| Hankook Tire Europe Holdings B.V. | 279,070,728 | 14,033 | - | 216,911 |
| Hankook Tire Netherlands B.V. | 263,169,511 | 245,776,580 | 277,944,920 | 2,637,171 |
| Hankook Tyre U.K. Ltd. | 116,887,346 | 99,933,763 | 211,277,381 | 2,813,624 |
| Hankook Reifen Deutschland GmbH | 193,531,560 | 166,618,386 | 477,076,320 | (574,656) |
| Hankook Tire France SARL | 53,228,478 | 45,157,138 | 141,458,128 | 473,484 |
| Hankook Tire Italia S.R.L. | 96,498,842 | 83,812,356 | 165,456,033 | 3,305,349 |
| Hankook Espana S.A. | 35,916,228 | 26,278,992 | 105,926,087 | 1,578,688 |
| Hankook Tire Europe GmbH | 123,017,021 | 118,235,082 | 21,104,089 | 966,300 |
| Hankook Tire Hungary Ltd. | 1,085,351,694 | 137,231,689 | 910,277,837 | 234,012,295 |
| Hankook Tire Budapest Kereskedelmi Kft | 33,929,060 | 23,491,107 | 58,840,234 | 1,283,801 |
| Hankook Tire Rus LLC | 65,868,410 | 60,252,162 | 112,003,205 | 3,268,895 |
| Hankook Tire Japan Corp. | 20,226,594 | 22,358,643 | 52,843,036 | (1,154,247) |
| Hankook Tyre Australia Pty. | 57,200,015 | 53,609,105 | 87,974,704 | 428,727 |
| Hankook Tire China Co., Ltd. | 1,295,924,550 | 443,125,032 | 628,153,637 | 80,474,189 |
| Jiangsu Hankook Tire Co., Ltd. | 706,263,789 | 181,937,245 | 532,666,456 | 35,593,214 |
| Shanghai Hankook Tire Sales Co., Ltd. | 537,055,668 | 541,805,105 | 901,770,608 | 6,476,753 |
| Daehwa Engineering & Machinery Co., Ltd. | 63,937,257 | 16,314,180 | 70,367,470 | (1,579,853) |
| Chongqing Hankooktire Co., Ltd. | 667,993,491 | 555,921,867 | 332,140,693 | 1,352,077 |
| PT. HANKOOK TIRE INDONESIA | 823,622,886 | 309,634,871 | 541,002,485 | 109,651,357 |
| MK Mold (Jiaxing) Co., LTD | 22,752,285 | 2,474,629 | 17,137,361 | 4,128,812 |
| MK Technology Co., Ltd. | 90,907,481 | 8,967,145 | 57,304,077 | 15,341,641 |
| Hankook Tire Singapore PTE., Ltd. | 175,229,593 | 170,693,857 | 4,119,771 | 752,325 |
| Hankook Tire Malaysia SDN.BHD. | 13,974,214 | 20,043,086 | 27,259,686 | (577,198) |
| Hankook Tire Sweden AB | 18,306,176 | 16,777,077 | 35,274,358 | 564,825 |
| Beijing Jielun Trading Company Co.,Ltd | 3,263,562 | 2,990,309 | 23,815,505 | (86,271) |
| Hankook Lastikleri A.S. | 23,702,884 | 23,639,045 | 62,934,682 | (976,024) |
| Hankook Tire Polska Sp. z o.o. | 36,267,307 | 33,169,681 | 73,124,151 | 1,192,295 |
| Hankook Tire Thailand Co.,Ltd. | 3,980,899 | 4,131,251 | 9,916,016 | (1,762,677) |
| Hankook Tire Manufacturing Tennessee LP | 743,989,098 | 544,296,480 | - | (468,803) |
| Hankook Tire America Holdings I, LLC | 1,894,440 | - | - | (371) |
| Hankook Tire America Holdings II, LLC | 186,439,612 | - | - | (371) |
| MK Technology (CHONGQING) Mould Co., Ltd. | 1,807,304 | 682,516 | 1,866,844 | 75,241 |
| Hankook Tire Ceska Republika s.r.o. | 31,194,849 | 29,063,172 | 83,735,926 | 1,439,733 |
| Hankook Donggeurami Partners Co., Ltd. | 1,770,132 | 1,564,432 | 2,028,269 | (458,338) |
| HK Motors Co., Ltd. | 699,666 | 338,229 | 773,742 | (628,563) |

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14. Property, Plant and Equipment

Details of the book amount of property, plant and equipment as at December 31, 2017 and 2016, are as follows:

*(in thousands of
Korean won)*

| | | 2017 | | | |
|-------------------------------|---|-------------------------|---------------------------------|------------------------------------|----------------------|
| | | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book amount |
| Land | ₩ | 322,027,220 | - | - | 322,027,220 |
| Buildings | | 2,076,785,908 | (447,585,155) | (20,994) | 1,629,179,759 |
| Structures | | 123,402,062 | (59,508,856) | - | 63,893,206 |
| Machinery and equipment | | 4,756,170,063 | (3,126,999,505) | - | 1,629,170,558 |
| Vehicles | | 92,624,481 | (43,713,347) | - | 48,911,134 |
| Tools, furniture and fixtures | | 1,165,469,360 | (700,124,915) | (1,942,695) | 463,401,750 |
| Machinery in transit | | 12,580,498 | - | - | 12,580,498 |
| Construction in progress | | 148,206,233 | - | - | 148,206,233 |
| | ₩ | <u>8,697,265,825</u> | <u>(4,377,931,778)</u> | <u>(1,963,689)</u> | <u>4,317,370,358</u> |

*(in thousands of
Korean won)*

| | | 2016 | | | |
|-------------------------------|---|-------------------------|---------------------------------|------------------------------------|------------------------|
| | | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book amount |
| Land | ₩ | 326,474,136 | ₩ - | ₩ - | ₩ 326,474,136 |
| Buildings | | 1,822,227,307 | (403,910,810) | - | 1,418,316,497 |
| Structures | | 121,221,593 | (54,387,875) | - | 66,833,718 |
| Machinery and equipment | | 4,491,240,882 | (2,861,947,179) | - | 1,629,293,703 |
| Vehicles | | 64,956,471 | (39,430,257) | - | 25,526,214 |
| Tools, furniture and fixtures | | 1,134,669,718 | (666,592,830) | (3,229,556) | 464,847,332 |
| Machinery in transit | | 17,152,735 | - | - | 17,152,735 |
| Construction in progress | | 750,808,311 | - | - | 750,808,311 |
| | ₩ | <u>8,728,751,153</u> | <u>₩ (4,026,268,951)</u> | <u>₩ (3,229,556)</u> | <u>₩ 4,699,252,646</u> |

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

(in thousands of Korean won)

| | 2017 | | | | | | | |
|-------------------------------|-------------------------|---------------------|-----------------------|------------------------|-----------------------|------------------------|------------------------------------|-------------------------|
| | Opening net book amount | Acquisition | Disposal | Depreciation | Transfer | Exchange differences | Changes in scope for consolidation | Closing net book amount |
| Land | ₩ 326,474,136 | ₩ 246,701 | ₩ - | ₩ - | ₩ - | ₩ (4,693,617) | ₩ - | ₩ 322,027,220 |
| Buildings | 1,418,316,497 | 3,331,115 | (905,534) | (55,212,382) | 313,741,059 | (50,331,157) | 240,161 | 1,629,179,759 |
| Structures | 66,833,718 | 791,472 | (30,362) | (5,740,201) | 3,816,469 | (1,777,890) | - | 63,893,206 |
| Machinery and equipment | 1,629,293,703 | 41,646,643 | (2,735,993) | (364,825,273) | 420,806,669 | (95,015,191) | - | 1,629,170,558 |
| Vehicles | 25,526,214 | 1,518,577 | (648,231) | (6,693,037) | 31,792,498 | (2,713,595) | 128,708 | 48,911,134 |
| Tools, furniture and fixtures | 464,847,332 | 60,235,249 | (16,685,559) | (97,864,077) | 69,674,606 | (17,426,107) | 620,306 | 463,401,750 |
| Machinery in transit | 17,152,735 | 12,692,618 | - | - | (16,863,812) | (401,043) | - | 12,580,498 |
| Construction in progress | 750,808,311 | 294,319,514 | (19,923,531) | - | (835,453,332) | (41,544,729) | - | 148,206,233 |
| | <u>₩4,699,252,646</u> | <u>₩414,781,889</u> | <u>₩ (40,929,210)</u> | <u>₩ (530,334,970)</u> | <u>₩ (12,485,843)</u> | <u>₩ (213,903,329)</u> | <u>₩ 989,175</u> | <u>₩4,317,370,358</u> |

(in thousands of Korean won)

| | 2016 | | | | | | | |
|-------------------------------|-------------------------|----------------------|-----------------------|------------------------|---------------------|-----------------------|-------------------------|--|
| | Opening net book amount | Acquisition | Disposal | Depreciation | Transfer | Exchange differences | Closing net book amount | |
| Land | ₩ 327,218,358 | ₩ 871,392 | ₩ (2,112,997) | ₩ - | ₩ (796,103) | ₩ 1,293,486 | ₩ 326,474,136 | |
| Buildings | 1,334,211,370 | 54,825,061 | (2,639,592) | (47,491,394) | 91,663,851 | (12,252,799) | 1,418,316,497 | |
| Structures | 37,702,206 | 309,968 | (17,372) | (6,351,298) | 36,654,633 | (1,464,419) | 66,833,718 | |
| Machinery and equipment | 1,865,145,910 | 69,190,312 | (9,927,489) | (320,269,433) | 51,050,379 | (25,895,976) | 1,629,293,703 | |
| Vehicles | 28,592,989 | 2,215,929 | (556,886) | (6,130,768) | 1,298,796 | 106,154 | 25,526,214 | |
| Tools, furniture and fixtures | 419,443,786 | 77,768,548 | (28,440,528) | (107,699,891) | 108,993,300 | (5,217,882) | 464,847,332 | |
| Machinery in transit | 28,498,025 | 21,079,358 | - | - | (32,195,589) | (229,059) | 17,152,735 | |
| Construction in progress | 453,154,301 | 474,937,657 | (147,620) | - | (198,600,072) | 21,464,045 | 750,808,311 | |
| | <u>₩ 4,493,966,945</u> | <u>₩ 701,198,225</u> | <u>₩ (43,842,484)</u> | <u>₩ (487,942,784)</u> | <u>₩ 58,069,195</u> | <u>₩ (22,196,451)</u> | <u>₩4,699,252,646</u> | |

Line items including depreciation in the statements of profit or loss for the years ended December 31, 2017 and 2016, are as follows:

(in thousands of Korean won)

| | 2017 | 2016 |
|--|----------------------|----------------------|
| Cost of sales | ₩ 468,536,297 | ₩ 436,688,427 |
| Selling and administrative expenses, including research and development cost | 61,798,673 | 51,254,357 |
| | <u>₩ 530,334,970</u> | <u>₩ 487,942,784</u> |

Pledged assets as collaterals

As at December 31, 2017, a certain portion of the Group's property, plant and equipment (land, buildings and machinery) is pledged as collaterals for its credit line and others. The Group has entered into a property comprehensive insurance for its buildings (Note 38).

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15. Investment Properties

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

(in thousands of Korean won)

| | 2017 | | | |
|-----------|----------------------|--------------------------|-----------------------------|----------------------|
| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book amount |
| Land | ₩ 83,654,643 | ₩ - | ₩ - | ₩ 83,654,643 |
| Buildings | 41,858,244 | (16,808,584) | - | 25,049,660 |
| | <u>₩ 125,512,887</u> | <u>₩ (16,808,584)</u> | <u>₩ -</u> | <u>₩ 108,704,303</u> |

(in thousands of Korean won)

| | 2016 | | | |
|-----------|----------------------|--------------------------|-----------------------------|----------------------|
| | Acquisition cost | Accumulated depreciation | Accumulated impairment loss | Book amount |
| Land | ₩ 83,654,643 | ₩ - | ₩ - | ₩ 83,654,643 |
| Buildings | 41,557,313 | (15,778,293) | - | 25,779,020 |
| | <u>₩ 125,211,956</u> | <u>₩ (15,778,293)</u> | <u>₩ -</u> | <u>₩ 109,433,663</u> |

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

(in thousands of Korean won)

| | 2017 | | | |
|-----------|----------------------|----------------------|------------------|----------------------|
| | Beginning balance | Depreciation | Others | Ending balance |
| Land | ₩ 83,654,643 | ₩ - | ₩ - | ₩ 83,654,643 |
| Buildings | 25,779,020 | (1,030,795) | 301,435 | 25,049,660 |
| | <u>₩ 109,433,663</u> | <u>₩ (1,030,795)</u> | <u>₩ 301,435</u> | <u>₩ 108,704,303</u> |

(in thousands of Korean won)

| | 2016 | | | | | |
|-----------|---------------------|------------------|------------|---------------------|-------------------|---------------------|
| | Beginning balance | Acquisition | Disposal | Depreciation | Others | Ending balance |
| Land | ₩ 83,654,643 | ₩ - | ₩ - | ₩ - | ₩ - | ₩ 83,654,643 |
| Buildings | 23,964,606 | 353,510 | - | (1,009,567) | 2,470,471 | 25,779,020 |
| | <u>₩107,619,249</u> | <u>₩ 353,510</u> | <u>₩ -</u> | <u>₩(1,009,567)</u> | <u>₩2,470,471</u> | <u>₩109,433,663</u> |

For the year ended December 31, 2017, depreciations of investment property are included in selling and administrative expenses.

Fair value of investment properties as at December 31, 2017 is ₩242,180,832 thousand (2016: ₩232,448,874 thousand).

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16. Intangible Assets

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

| <i>(in thousands of Korean won)</i> | 2017 | | | |
|---|----------------------|--------------------------|-----------------------------|--------------------|
| | Acquisition cost | Accumulated amortization | Accumulated impairment loss | Book amount |
| Industrial rights | ₩ 13,066,278 | (10,567,672) | - | 2,498,606 |
| Other intangible assets | 221,983,998 | (84,491,319) | (25,709) | 137,466,970 |
| Goodwill | 57,270,288 | - | (5,846,120) | 51,424,168 |
| Construction in progress | 4,138,356 | - | - | 4,138,356 |
| | <u>₩ 296,458,920</u> | <u>(95,058,991)</u> | <u>(5,871,829)</u> | <u>195,528,100</u> |

| <i>(in thousands of Korean won)</i> | 2016 | | | |
|---|----------------------|--------------------------|-----------------------------|----------------------|
| | Acquisition cost | Accumulated amortization | Accumulated impairment loss | Book amount |
| Industrial rights | ₩ 12,028,911 | ₩ (9,514,535) | ₩ - | ₩ 2,514,376 |
| Other intangible assets | 172,289,781 | (66,403,369) | (28,085) | 105,858,327 |
| Goodwill | 28,014,681 | - | (621,558) | 27,393,123 |
| Construction in progress | 10,422,240 | - | - | 10,422,240 |
| | <u>₩ 222,755,613</u> | <u>₩ (75,917,904)</u> | <u>₩ (649,643)</u> | <u>₩ 146,188,066</u> |

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

| <i>(in thousands of Korean won)</i> | 2017 | | | | | | | | |
|---|---------------------|-------------------|--------------------|-----------------------|----------------------|--------------------|----------------------|--------------------|---------------------|
| | Beginning balance | Acquisition | Disposal | Amortization | Impairment | Others | Exchange differences | Mergers | Ending balance |
| Industrial rights | ₩2,514,376 | ₩519,482 | ₩ 1,595 | ₩ (1,053,772) | ₩ - | ₩517,714 | ₩ (789) | ₩ - | ₩2,498,606 |
| Other intangible assets | 105,858,327 | 4,000,618 | (31,985) | (16,704,996) | - | 20,302,785 | (6,131,585) | 30,173,806 | 137,466,970 |
| Goodwill ¹ | 27,393,123 | - | - | - | (6,067,460) | - | (430,108) | 30,528,613 | 51,424,168 |
| Construction in progress | 10,422,240 | 2,607,951 | (248,670) | - | - | (8,628,659) | (14,506) | - | 4,138,356 |
| | <u>₩146,188,066</u> | <u>₩7,128,051</u> | <u>₩ (279,060)</u> | <u>₩ (17,758,768)</u> | <u>₩ (6,067,460)</u> | <u>₩12,191,840</u> | <u>₩ (6,576,988)</u> | <u>₩60,702,419</u> | <u>₩195,528,100</u> |

¹ The Group acquired the tire distribution department of JAX Tyres during the year ended December 31, 2017, and recognized goodwill amounting to ₩30,528,613 thousand (Note 40).

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| <i>(in thousands of Korean won)</i> | 2016 | | | | | | | |
|-------------------------------------|----------------------|---------------------|--------------------|-----------------------|--------------------|----------------------|----------------------|----------------------|
| | Beginning balance | Acquisition | Disposal | Amortization | Impairment | Others | Exchange differences | Ending balance |
| Industrial rights | ₩ 2,329,381 | ₩ 535,118 | ₩ - | ₩ (977,812) | ₩ - | ₩ 627,689 | ₩ - | ₩ 2,514,376 |
| Other intangible assets | 107,372,311 | 13,615,355 | (688) | (12,875,232) | (28,934) | (1,054,708) | (1,169,777) | 105,858,327 |
| Goodwill | 27,393,122 | 621,559 | - | - | (621,558) | - | - | 27,393,123 |
| Construction in progress | 5,712,011 | 8,082,614 | (223,133) | - | - | (3,149,252) | - | 10,422,240 |
| | <u>₩ 142,806,825</u> | <u>₩ 22,854,646</u> | <u>₩ (223,821)</u> | <u>₩ (13,853,044)</u> | <u>₩ (650,492)</u> | <u>₩ (3,576,271)</u> | <u>₩ (1,169,777)</u> | <u>₩ 146,188,066</u> |

Impairment Tests for Goodwill

Management reviews the business performance of retail business. The recoverable amount of CGU has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate included in industry report specific to the industry in which the CGU operates.

As at December 31, 2017, Goodwill allocated according to cash-generating units is as follows:

| <i>(in thousands of Korean won)</i> | Goodwill |
|--|--------------|
| Hankook Tyre Australia Retail Pty., Ltd. | ₩ 24,031,045 |

Goodwill impairment reviews are undertaken annually. Goodwill related to MK technology Co., Ltd. amounts to ₩27,393,123 thousand is not allocated, because it is considered as a sole cash-generating unit. As a result of the impairment test, impairment losses amount to ₩6,067,460 thousand is allocated to Hankook Tyre Australia Retail Pty., Ltd. Except for this, the carrying value of cash generating units does not exceed the recoverable amount. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period.

The following table sets out the key assumptions for those CGUs that have significant goodwill allocated to them, long-term growth rate and discount rate used in the value-in-use calculations.

| <i>(in percentage, %)</i> | Hankook Tyre Australia Retail Pty., Ltd | Hankook Tire Co., Ltd. | |
|------------------------------|---|------------------------|------|
| | 2017 | 2017 | 2016 |
| Annual growth rate for sales | 8.2% | 4.0% | 3.0% |
| Long-term growth rate | 3.0% | 0.0% | 0.0% |
| Pre-tax discount rate | 12.3% | 7.9% | 7.8% |

Annual growth rate for sales is based on past performance and management's expectations, and pre-tax discount rate is a rate reflecting specific risk of related business.

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The table below summarizes the impact of increases/decreases of each assumption in each CGU on the Group's pre-tax profit for the year. The assumptions were used in calculating value-in-use of goodwill that is material to the Group.

| <i>(in thousands of Korean won)</i> | 2017 | |
|---|-------------|-------------|
| 0.5%P decrease in long-term growth rate | ₩ | (2,120,856) |
| 0.5%P increase in pre-tax discount rate | | (2,842,325) |

17. Trade and Other Payables

Details of trade and other payables as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|-------------------------------------|-------------|--------------------|-------------|--------------------|
| Trade payables | ₩ | 382,686,120 | ₩ | 404,935,185 |
| Non-trade payables | | 247,764,124 | | 299,186,744 |
| Accrued expenses | | 234,274,369 | | 250,630,376 |
| Dividends payable | | 24,314 | | 19,485 |
| | ₩ | <u>864,748,927</u> | ₩ | <u>954,771,790</u> |

18. Borrowings

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

| <i>(in thousands of Korean won)</i> | 2017 | | | | 2016 | | | |
|-------------------------------------|----------------|----------------------|--------------------|--------------------|----------------|----------------------|--------------------|----------------------|
| | Current | | Non-current | | Current | | Non-current | |
| Short-term borrowings | ₩ | 866,387,152 | ₩ | - | ₩ | 868,517,354 | ₩ | - |
| Long-term borrowings | | 117,729,310 | | 214,280,000 | | 253,087,601 | | 265,954,277 |
| Debentures | | 249,951,373 | | 525,111,689 | | 130,381,158 | | 809,394,766 |
| | ₩ | <u>1,234,067,835</u> | ₩ | <u>739,391,689</u> | ₩ | <u>1,251,986,113</u> | ₩ | <u>1,075,349,043</u> |

Details of short-term borrowings as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | Lender | Annual interest rate(%) | 2017 | | 2016 | |
|--|-----------------------|--------------------------------|-------------|--------------------|-------------|--------------------|
| General loans | BMG and others | 0.4 ~ 8.8 | ₩ | 80,871,879 | ₩ | 170,167,678 |
| Bank overdrafts | UniCredit and others | - | | - | | 1,235,089 |
| Transfer of trade receivables ¹ | Woori Bank and others | 0.01 ~ 9.6 | | 653,760,643 | | 492,930,595 |
| Usance | JP Morgan and others | 1.7 ~ 2.2 | | 131,754,630 | | 204,183,992 |
| | | | ₩ | <u>866,387,152</u> | ₩ | <u>868,517,354</u> |

¹ As transfer of trade receivables does not meet derecognition criteria, financial liabilities are

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recognized and secured by the Group's trade receivables.

Details of long-term borrowings as at December 31, 2017 and 2016, are as follows:

(in thousands of
Korean won)

| | Lender | Maturity date | Annual interest rate(%) | 2017 | | 2016 | |
|--|----------------------|---------------|-------------------------|---------------------|----------------------|----------------------|---------------------|
| | | | | Current | Non-current | Current | Non-current |
| Long-term borrowings in local currency | Woori Bank | - | - | ₩ - | ₩ - | ₩ 160,000 | ₩ 480,000 |
| Long-term borrowings in foreign currency | JP Morgan and others | 2021.9.30 | 2.0 ~ 2.7 | 117,729,310 | 214,280,000 | 252,927,601 | 265,474,277 |
| | | | | <u>₩117,729,310</u> | <u>₩ 214,280,000</u> | <u>₩ 253,087,601</u> | <u>₩265,954,277</u> |

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

(in thousands of Korean
won)

| | Issue date | Maturity date | Annual interest rate(%) | 2017 | | 2016 | |
|--|------------|---------------|-------------------------|---------------------|----------------------|---------------------|---------------------|
| | | | | Current | Non-current | Current | Non-current |
| The 81-2nd debentures | 2012.02.21 | 2017.02.21 | - | ₩ - | ₩ - | ₩ 70,000,000 | ₩ - |
| The 82nd debentures | 2014.09.01 | 2017.09.01 | - | - | - | 60,425,000 | - |
| The 83-1st debentures | 2015.03.12 | 2018.03.12 | 2.1 | 250,000,000 | - | - | 250,000,000 |
| The 83-2nd debentures | 2015.03.12 | 2020.03.12 | 2.2 | - | 250,000,000 | - | 250,000,000 |
| Less: Discount on debentures | | | | (48,627) | (324,557) | (43,842) | (755,568) |
| Tennessee local government bond(1st) (USD) | 2014.12.10 | 2024.12.10 | 1.8 | - | 32,142,000 | - | 36,255,000 |
| Tennessee local government bond(2nd) (USD) | 2015.11.19 | 2025.11.19 | 1.8 | - | 160,710,000 | - | 181,275,000 |
| Tennessee local government bond(3rd) (USD) | 2016.05.26 | 2026.05.25 | 1.8 | - | 85,712,000 | - | 96,680,000 |
| Less: Discount on bond | | | | - | (3,127,754) | - | (4,059,666) |
| | | | | <u>₩249,951,373</u> | <u>₩ 525,111,689</u> | <u>₩130,381,158</u> | <u>₩809,394,766</u> |

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19. Provisions

Changes in provisions for the year ended December 31, 2017 and 2016, are as follows:

*(in thousands of
Korean won)*

| | 2017 | | | | |
|-----------------------------------|------------------------------|----------------------------------|---------------------------------|---------------------------------|---------------------------|
| | Beginning balance | Additional provisions | Used during the year | Exchange differences | Ending balance |
| Provision for product liabilities | ₩ 9,668,000 | ₩ 3,939,204 | ₩ (8,560,963) | ₩ (572,478) | ₩ 4,473,763 |
| Provision for product warranties | 53,087,491 | 12,861,394 | (16,195,694) | (119,217) | 49,633,974 |
| Other provisions | 938,559 | 171,854 | (99,773) | 5,031 | 1,015,671 |
| | <u>₩ 63,694,050</u> | <u>₩ 16,972,452</u> | <u>₩ (24,856,430)</u> | <u>₩ (686,664)</u> | <u>₩ 55,123,408</u> |

*(in thousands of
Korean won)*

| | 2016 | | | | |
|-----------------------------------|------------------------------|---|---------------------------------|---------------------------------|---------------------------|
| | Beginning balance | Additional provisions (reversal) | Used during the year | Exchange differences | Ending balance |
| Provision for product liabilities | ₩ 9,376,000 | ₩ - | ₩ - | ₩ 292,000 | ₩ 9,668,000 |
| Provision for product warranties | 75,133,272 | (4,003,087) | (17,962,969) | (79,725) | 53,087,491 |
| Other provisions | 397,460 | 547,263 | - | (6,164) | 938,559 |
| | <u>₩ 84,906,732</u> | <u>₩ (3,455,824)</u> | <u>₩ (17,962,969)</u> | <u>₩ 206,111</u> | <u>₩ 63,694,050</u> |

20. Other Financial Liabilities

Details of other financial liabilities as at December 31, 2017 and 2016, are as follows:

*(in thousands of
Korean won)*

| | 2017 | | 2016 | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
| | Current | Non-current | Current | Non-current |
| Leasehold deposits received | ₩ 2,753,000 | ₩ 1,351,943 | ₩ 3,462,000 | ₩ 1,047,698 |
| Financial derivative liabilities | 3,080,677 | - | 1,189,296 | - |
| | <u>₩ 5,833,677</u> | <u>₩ 1,351,943</u> | <u>₩ 4,651,296</u> | <u>₩ 1,047,698</u> |

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21. Other Liabilities

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

*(in thousands of
Korean won)*

| | 2017 | | 2016 | |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Current | Non-current | Current | Non-current |
| Advance received | ₩ 26,870,966 | ₩ - | ₩ 23,376,310 | ₩ - |
| Withholdings | 35,067,863 | - | 38,359,232 | - |
| Unearned revenue | 25,768,989 | 65,494,385 | 30,394,718 | 75,552,679 |
| Long-term employee liabilities | - | 18,122,712 | - | 18,237,886 |
| Others | 2,953,167 | 1,522,981 | 1,261,990 | 1,168,580 |
| | <u>₩ 90,660,985</u> | <u>₩ 85,140,078</u> | <u>₩ 93,392,250</u> | <u>₩ 94,959,145</u> |

Changes in long-term employee liabilities for the year ended December 31, 2017 and 2016, are as follows:

*(in thousands of
Korean won)*

| | 2017 | | | | |
|--------------------------------|-------------------|-----------------------|----------------------|----------------------|----------------|
| | Beginning balance | Additional provisions | Used during the year | Exchange differences | Ending balance |
| Long-term employee liabilities | ₩ 18,237,886 | ₩ 1,383,654 | ₩ (1,498,828) | ₩ - | ₩ 18,122,712 |

*(in thousands of
Korean won)*

| | 2016 | | | | |
|--------------------------------|-------------------|-----------------------|----------------------|----------------------|----------------|
| | Beginning balance | Additional provisions | Used during the year | Exchange differences | Ending balance |
| Long-term employee liabilities | ₩ 15,801,080 | ₩ 3,627,647 | ₩ (1,190,841) | ₩ - | ₩ 18,237,886 |

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22. Net Defined Benefit Liability

The Group has both defined contribution and defined benefit plans.

22.1 Defined Benefit Plan

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

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

Details of net defined benefit liabilities (assets) recognized in the statements of financial position as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | 2017 | 2016 |
|--|-----------------------|----------------------|
| Present value of defined benefit obligations | ₩ 380,159,219 | ₩ 383,027,219 |
| Fair value of plan assets ¹ | <u>(386,581,452)</u> | <u>(364,379,529)</u> |
| Net defined benefit liabilities | 5,268,711 | 18,647,690 |
| Net defined benefit assets | <u>₩ (11,690,944)</u> | <u>₩ -</u> |

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

(in thousands of Korean won)

| | 2017 | | |
|--|---|----------------------------------|----------------------|
| | Present value of defined benefit obligations | Fair value of plan assets | Total |
| Beginning balance | ₩383,027,219 | ₩ (364,379,529) | ₩ 18,647,690 |
| Current service cost | 56,500,319 | - | 56,500,319 |
| Interest expense (income) | 12,945,160 | (11,728,722) | 1,216,438 |
| | <u>69,445,479</u> | <u>(11,728,722)</u> | <u>57,716,757</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 5,058,628 | 5,058,628 |
| Actuarial loss (gain) from change in demographic assumptions | (292,572) | - | (292,572) |
| Actuarial loss (gain) from change in financial assumptions | (18,309,028) | - | (18,309,028) |
| Actuarial loss (gain) from experience adjustments | (9,651,218) | - | (9,651,218) |
| | <u>(28,252,818)</u> | <u>5,058,628</u> | <u>(23,194,190)</u> |
| Employers' contributions | - | (48,978,041) | (48,978,041) |
| Benefit payments | (43,681,338) | 33,446,212 | (10,235,126) |
| Others | (354,539) | - | (354,539) |
| Changes in scope of consolidation | (24,784) | - | (24,784) |
| Ending balance | <u>₩ 380,159,219</u> | <u>₩ (386,581,452)</u> | <u>₩ (6,422,233)</u> |

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| <i>(in thousands of Korean won)</i> | 2016 | | |
|--|---|----------------------------------|---------------------|
| | Present value of defined benefit obligations | Fair value of plan assets | Total |
| Beginning balance | ₩ 337,774,793 | ₩ (307,668,658) | ₩ 30,106,135 |
| Current service cost | 57,094,685 | - | 57,094,685 |
| Interest expense (income) | 11,404,214 | (9,896,922) | 1,507,292 |
| | <u>68,498,899</u> | <u>(9,896,922)</u> | <u>58,601,977</u> |
| Remeasurements: | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 3,281,733 | 3,281,733 |
| Actuarial loss (gain) from change in demographic assumptions | (1,116,933) | - | (1,116,933) |
| Actuarial loss (gain) from change in financial assumptions | (1,583,166) | - | (1,583,166) |
| Actuarial loss (gain) from experience adjustments | 8,172,901 | - | 8,172,901 |
| | <u>5,472,802</u> | <u>3,281,733</u> | <u>8,754,535</u> |
| Employers' contributions | - | (74,339,052) | (74,339,052) |
| Benefit payments | (28,375,752) | 19,457,473 | (8,918,279) |
| Others | (343,523) | 4,785,897 | 4,442,374 |
| Ending balance | <u>₩ 383,027,219</u> | <u>₩ (364,379,529)</u> | <u>₩ 18,647,690</u> |

The significant actuarial assumptions used in defined benefit obligations assessment as at December 31, 2017 and 2016, are as follows:

| <i>(in percentage, %)</i> | 2017 | 2016 |
|---------------------------|-------------|-------------|
| Discount rate | 2.6%~7.3% | 2.6%~8.5% |
| Salary growth rate | 3.4%~10.0% | 3.4%~10.0% |

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

| <i>(in thousands of Korean won)</i> | 2017 | |
|-------------------------------------|-----------------|-----------------|
| | Increase | Decrease |
| 1% change of discount rate | ₩ (37,287,513) | ₩ 44,232,579 |
| 1% change of salary growth rate | 43,797,201 | (37,637,840) |
| <i>(in thousands of Korean won)</i> | 2016 | |
| | Increase | Decrease |
| 1% change of discount rate | ₩ (37,169,492) | ₩ 44,175,455 |
| 1% change of salary growth rate | 43,572,105 | (37,396,456) |

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

| <i>(in thousands of Korean won)</i> | 2017 | 2016 |
|-------------------------------------|---------------------|---------------------|
| Current service cost | ₩ 56,500,319 | ₩ 57,094,685 |
| Interest cost | 1,216,438 | 1,507,292 |
| | <u>₩ 57,716,757</u> | <u>₩ 58,601,977</u> |

Plan assets as at December 31, 2017 and 2016, consist of:

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|-------------------------------------|----------------------|--------------------|----------------------|--------------------|
| | Amount | Composition | Amount | Composition |
| Debt instruments | ₩ 354,764,049 | 91.8% | ₩ 348,128,670 | 95.54% |
| Cash and cash equivalents | 2,738,210 | 0.7% | 14 | 0.00% |
| Others | 29,079,193 | 7.5% | 16,250,845 | 4.46% |
| | <u>₩ 386,581,452</u> | <u>100.0%</u> | <u>₩ 364,379,529</u> | <u>100.00%</u> |

The Group reviews the funding level on an annual basis and has a policy of eliminating deficit from the fund. Expected contributions to post-employment benefit plans for the year ending December 31, 2018, are ₩38,873,683 thousand (2016: ₩71,339,144 thousand).

The expected maturity analysis of undiscounted pension benefits as at December 31, 2017, is as follows:

| <i>(in thousands of Korean won)</i> | 2017 | | | | |
|-------------------------------------|-------------------------|------------------------------|------------------------------|---------------------|-----------------|
| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
| Pension benefits | ₩ 23,472,293 | ₩ 24,323,101 | ₩ 54,490,566 | ₩ 905,081,547 | ₩ 1,007,367,507 |

| <i>(in thousands of Korean won)</i> | 2016 | | | | |
|-------------------------------------|-------------------------|------------------------------|------------------------------|---------------------|---------------|
| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
| Pension benefits | ₩ 19,123,353 | ₩ 21,301,834 | ₩ 52,873,689 | ₩ 906,347,246 | ₩ 999,646,122 |

The weighted average duration of the defined benefit obligation is 11.3 years (2016: 11.2 years).

22. 2 Defined Contribution Plan

The expense recognized in the current period in relation to defined contribution plan was ₩ 1,842,816 thousand (2016: ₩1,612,532 thousand).

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23. Share Capital and Other Paid-in Capital

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

| <i>(in Korean won, except for number of shares)</i> | 2017 | 2016 |
|---|-------------------------|-------------------------|
| Authorized (in shares) | 250,000,000 | 250,000,000 |
| Par value | 500 | 500 |
| Outstanding (in shares): | | |
| Ordinary shares | <u>123,875,069</u> | <u>123,875,069</u> |
| Share capital: | | |
| Ordinary shares | <u>₩ 61,937,534,500</u> | <u>₩ 61,937,534,500</u> |

24. Other Paid-in Capital

Details of other paid-in capital as at December 31, 2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | 2017 | 2016 |
|-------------------------------------|------------------------|------------------------|
| Share premium | ₩ 2,993,465,738 | ₩ 2,993,465,738 |
| Treasury shares ¹ | <u>(1,088,018)</u> | <u>(1,088,018)</u> |
| | <u>₩ 2,992,377,720</u> | <u>₩ 2,992,377,720</u> |

¹During 2012, the Group acquired 22,388 treasury shares through a spin-off.

25. Retained Earnings and Dividends

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

| <i>(in thousands of Korean won)</i> | 2017 | 2016 |
|-------------------------------------|------------------------|------------------------|
| Legal reserve: | | |
| Surplus reserve | <u>₩ 24,770,536</u> | <u>₩ 19,816,429</u> |
| | <u>24,770,536</u> | <u>19,816,429</u> |
| Voluntary reserve: | | |
| Dividend equalization reserve | 50,000,000 | 40,000,000 |
| Director's retirement bonus reserve | 5,000,000 | 4,000,000 |
| Voluntary reserve | <u>50,000,000</u> | <u>40,000,000</u> |
| | 105,000,000 | 84,000,000 |
| Unappropriated retained earnings | <u>3,389,214,398</u> | <u>2,846,756,458</u> |
| | <u>₩ 3,518,984,934</u> | <u>₩ 2,950,572,887</u> |

Dividend distributed to the Group's ordinary shareholders amounted to ₩ 49,541,072 thousand (2016: ₩ 49,541,072 thousand) for the year ended December 31, 2016, was paid in April 2017. Dividend distributed to non-controlling interests is ₩ 4,121,740 thousand, was paid in April 2017.

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26. Other Components of Equity

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

(in thousands of Korean won)

| | 2017 | | | | |
|--|--------------------------|----------------------------|---|--|------------------------|
| | Beginning balance | Increase (Decrease) | Reclassification to profit or loss | Reclassification to non-controlling interests | Ending balance |
| Changes in the fair value of available-for-sale financial assets | ₩ 901,136 | ₩ 924,537 | ₩ - | ₩ (1,771) | ₩ 1,823,902 |
| Exchange differences on translating foreign operations | (52,872,780) | (163,648,963) | - | 426,110 | (216,095,633) |
| Share of other comprehensive income of associates | (3,531,835) | 3,174,566 | - | - | (357,269) |
| | <u>₩ (55,503,479)</u> | <u>₩ (159,549,860)</u> | <u>₩ -</u> | <u>₩ 424,339</u> | <u>₩ (214,629,000)</u> |

(in thousands of Korean won)

| | 2016 | | | | |
|--|--------------------------|----------------------------|---|--|-----------------------|
| | Beginning balance | Increase (Decrease) | Reclassification to profit or loss | Reclassification to non-controlling interests | Ending balance |
| Changes in the fair value of available-for-sale financial assets | ₩ 742,398 | ₩ 159,343 | ₩ - | ₩ (605) | ₩ 901,136 |
| Exchange differences on translating foreign operations | (54,779,361) | 1,524,072 | - | 382,509 | (52,872,780) |
| Share of other comprehensive income of associates | 24,836 | (3,556,671) | - | - | (3,531,835) |
| | <u>₩ (54,012,127)</u> | <u>₩ (1,873,256)</u> | <u>₩ -</u> | <u>₩ 381,904</u> | <u>₩ (55,503,479)</u> |

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27. Sales and Cost of Sales

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

| <i>(in thousands of Korean won)</i> | 2017 | 2016 |
|-------------------------------------|------------------------|------------------------|
| Sales of goods | ₩ 6,783,793,378 | ₩ 6,612,992,572 |
| Sale of finished goods | 7,168,897,955 | 6,996,829,495 |
| Sale discount | (89,672,541) | (90,427,858) |
| Sales incentive | (295,432,036) | (293,409,065) |
| Rendering of services | 29,064,604 | 8,769,720 |
| Rental sales | 2,690,325 | 2,573,589 |
| Service sales | 26,374,279 | 6,196,131 |
| | <u>₩ 6,812,857,982</u> | <u>₩ 6,621,762,292</u> |

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

| <i>(in thousands of Korean won)</i> | 2017 | 2016 |
|---|------------------------|------------------------|
| Cost of finished goods sold | ₩ 4,471,533,234 | ₩ 4,045,674,519 |
| Custom duties reimbursed | (3,477,301) | (7,069,096) |
| Loss on valuation of inventories and others | 24,327,735 | 6,422,835 |
| | <u>₩ 4,492,383,668</u> | <u>₩ 4,045,028,258</u> |

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28. Selling and Administrative Expenses

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

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|---|-------------|----------------------|-------------|----------------------|
| Salaries | ₩ | 190,124,664 | ₩ | 192,519,659 |
| Post-employment benefits | | 12,776,903 | | 15,088,230 |
| Service expenses | | 42,292,448 | | 43,320,593 |
| Employee welfare benefit | | 38,522,026 | | 41,561,257 |
| Utility expenses | | 3,784,981 | | 4,641,245 |
| Supplies expenses | | 3,434,577 | | 5,650,872 |
| Repairs expenses | | 4,673,917 | | 5,778,943 |
| Test expenses | | 13,177,897 | | 11,902,953 |
| Overseas branch maintenance expenses | | 10,766,622 | | 9,687,789 |
| Travel expenses | | 16,728,468 | | 16,200,934 |
| Training expenses | | 1,219,749 | | 2,402,132 |
| Communication expenses | | 3,711,579 | | 3,638,731 |
| Entertainment expenses | | 4,717,828 | | 5,608,938 |
| Vehicles maintenance expenses | | 3,818,139 | | 3,816,516 |
| Publication expenses | | 494,460 | | 794,921 |
| Commission fees | | 59,310,634 | | 56,470,947 |
| Rental expenses | | 33,910,500 | | 29,628,309 |
| Depreciation of property, plant and equipment | | 35,521,858 | | 38,905,747 |
| Depreciation of investment property | | 1,030,795 | | 1,009,567 |
| Amortization of intangible assets | | 12,820,265 | | 8,990,374 |
| Insurance | | 7,343,051 | | 6,912,117 |
| Taxes and dues | | 22,288,087 | | 23,673,345 |
| Impairment loss on receivables | | 669,743 | | 718,524 |
| Conference expenses | | 941,161 | | 1,178,271 |
| Brand loyalty expenses | | 48,575,290 | | 47,097,326 |
| SSC service fee | | 20,851,829 | | 21,511,833 |
| Travel and transportation expenses | | 217,608,118 | | 210,620,615 |
| Ship transportation expenses | | 180,283,789 | | 165,873,294 |
| Advertising | | 226,501,581 | | 213,267,636 |
| Other export expenses | | 13,067,646 | | 13,173,129 |
| Packing charges | | 10,969,491 | | 12,296,903 |
| Sales damage expenses | | 16,800,598 | | 11,182,594 |
| Foreign market development expenses | | 155,718 | | 244,362 |
| Storage charges | | 90,053,017 | | 80,169,186 |
| Other expenses | | 433,485 | | 895,598 |
| | ₩ | <u>1,349,380,914</u> | ₩ | <u>1,306,433,390</u> |

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29. Finance Income

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

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|---------------------------------------|-------------|--------------------|-------------|--------------------|
| Interest income | ₩ | 11,890,324 | ₩ | 6,800,616 |
| Gains on valuation of derivatives | | 5,695,291 | | 697,582 |
| Gains on transaction of derivatives | | 4,143,118 | | - |
| Gains on foreign currency translation | | 49,437,634 | | 39,035,927 |
| Gains on foreign currency transaction | | 59,305,707 | | 70,184,619 |
| | ₩ | <u>130,472,074</u> | ₩ | <u>116,718,744</u> |

30. Finance Costs

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

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|---|-------------|--------------------|-------------|--------------------|
| Interest expense | ₩ | <u>58,647,115</u> | ₩ | <u>45,557,638</u> |
| Losses on disposal of available-for-sale financial assets | | 108 | | 789 |
| Impairment loss on available-for-sale financial assets | | 100,000 | | - |
| Losses on valuation of derivatives | | 860,656 | | 1,189,296 |
| Losses on transaction of derivatives | | 5,584,989 | | 1,265,065 |
| Losses on foreign currency transaction | | 27,475,894 | | 89,026,779 |
| Losses on foreign currency translation | | 52,354,834 | | 69,250,924 |
| | ₩ | <u>145,023,596</u> | ₩ | <u>206,290,491</u> |

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31. Other Non-operating Income

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

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|--|-------------|--------------------|-------------|--------------------|
| Royalty income | ₩ | 488,891 | ₩ | 678,491 |
| Dividend income | | 69,771 | | 182,722 |
| Commission income | | 2,104,715 | | 1,567,323 |
| Rental income | | 863,842 | | 822,752 |
| Gains on foreign currency translation | | 21,461,773 | | 90,854,162 |
| Gains on foreign currency transaction | | 76,345,892 | | 59,984,500 |
| Gains on disposal of property, plant and equipment | | 3,079,339 | | 4,734,704 |
| Gains on disposal of intangible assets | | 45,620 | | - |
| Gains on insurance settlements | | 143,606 | | 6,416,307 |
| Gains on valuation of derivatives | | - | | 5,396,047 |
| Gains on transaction of derivatives | | 257,633 | | 4,734,113 |
| Other | | 18,699,474 | | 22,355,579 |
| | ₩ | <u>123,560,556</u> | ₩ | <u>197,726,700</u> |

32. Other Non-operating Expenses

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

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|--|-------------|--------------------|-------------|--------------------|
| Donation | ₩ | 2,269,580 | ₩ | 4,482,568 |
| Losses on disposal of property, plant and equipment | | 4,917,468 | | 8,802,413 |
| Losses on abandonment of property, plant and equipment | | 8,785 | | 4,627 |
| Losses on disposal of intangible assets | | 695 | | 688 |
| Impairment loss on intangible assets | | 6,067,460 | | 650,492 |
| Losses on disposal of trade receivables | | 103,453 | | 105,287 |
| Losses on foreign currency translation | | 46,005,894 | | 30,093,069 |
| Losses on foreign currency transaction | | 107,739,742 | | 114,697,012 |
| Losses on valuation of derivative instruments | | 4,167,893 | | 4,245 |
| Other | | 24,228,271 | | 4,977,953 |
| | ₩ | <u>195,509,241</u> | ₩ | <u>163,818,354</u> |

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33. Tax Expense and Deferred Tax

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

| <i>(in thousands of Korean won)</i> | 2017 | 2016 |
|---|---------------|---------------|
| Current tax: | | |
| Current tax on profit for the year | ₩ 80,090,297 | ₩ 253,683,305 |
| Deferred tax: | | |
| Origination and reversal of temporary differences | 35,204,894 | 11,889,041 |
| Changes in tax credit | 21,284,310 | (52,246,223) |
| Income tax expense | ₩ 136,579,501 | ₩ 213,326,123 |

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

| <i>(in thousands of Korean won)</i> | 2017 | 2016 |
|---|---------------|-----------------|
| Profit before income tax expense | ₩ 743,036,343 | ₩ 1,092,416,339 |
| Tax calculated at statutory tax rates applicable to profits in the respective countries | 165,231,050 | 264,482,345 |
| Tax effects of: | | |
| Income not subject to tax | (2,728,933) | (37,834) |
| Expenses not deductible for tax purposes | 7,416,413 | 2,054,524 |
| Tax credit | (37,709,216) | (60,562,293) |
| Others | 4,370,187 | 7,389,381 |
| Subtotal | (28,651,549) | (51,156,222) |
| Income tax expense | ₩ 136,579,501 | ₩ 213,326,123 |
| Effective tax rate | 18.4% | 19.5% |

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

| <i>(in thousands of Korean won)</i> | 2017 | | | 2016 | | |
|--|----------------------|--------------------|----------------------|---------------------|------------------|--------------------|
| | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| Remeasurements of net defined benefit liabilities | 23,194,190 | (6,317,768) | 16,876,422 | (8,754,534) | 2,106,040 | (6,648,494) |
| Share of retained earnings of associates | 1,715,852 | 190,483 | 1,906,335 | (302,162) | (34,115) | (336,277) |
| Changes in the fair value of available-for-sale financial assets | 660,230 | 264,307 | 924,537 | 202,041 | (42,698) | 159,343 |
| Exchange differences on translating foreign operations | (163,648,962) | - | (163,648,962) | (923,072) | 2,447,144 | 1,524,072 |
| Share of other comprehensive income of associates | 2,569,140 | 605,425 | 3,174,565 | (4,689,312) | 1,132,641 | (3,556,671) |
| | <u>(135,509,550)</u> | <u>(5,257,553)</u> | <u>(140,767,103)</u> | <u>(14,467,039)</u> | <u>5,609,012</u> | <u>(8,858,027)</u> |

The analysis of deferred tax assets and liabilities as at December 31, 2017 and 2016, is as follows:

| <i>(in thousands of Korean won)</i> | 2017 | 2016 |
|---|----------------------|----------------------|
| Deferred tax asset(liabilities) to be recovered within 12 months | ₩ 111,444,133 | ₩ 112,209,403 |
| Deferred tax asset(liabilities) to be recovered after more than 12 months | 11,632,858 | 64,127,447 |
| | <u>₩ 123,076,991</u> | <u>₩ 176,336,851</u> |

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

| <i>(in thousands of Korean won)</i> | 2017 | | | | |
|-------------------------------------|-------------------|-----------------------------|----------------------------|---------|----------------|
| | Beginning balance | Statement of profit or loss | Other comprehensive income | Mergers | Ending balance |
| Property, plant and equipment | ₩ (10,546,700) | ₩ 11,775,768 | ₩ - | ₩ - | ₩ 1,229,068 |
| Inventories | 1,022,016 | 476,808 | - | - | 1,498,824 |
| Accrued income | (135,164) | 122,604 | - | - | (12,560) |
| Derivatives | (159,242) | 812,220 | - | - | 652,978 |
| Long-term employee benefit | 4,197,457 | 555,465 | - | - | 4,752,922 |
| Other Provision | 15,016,488 | (438,349) | - | - | 14,578,139 |
| Post-employment benefit obligation | (121,509) | 2,236,682 | (6,337,602) | - | (4,222,429) |

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| | | | | | |
|---|---------------|----------------|----------------|-------------|---------------|
| Accrued expense | 5,066,862 | 72,101 | - | - | 5,138,963 |
| Advanced depreciation provision for non-depreciable assets | (15,493,272) | (1,717,049) | - | - | (17,210,321) |
| Advanced depreciation provision for depreciable assets | (294,928) | (10,034) | - | - | (304,962) |
| Gains and losses on foreign currency translation | (43,574) | 43,790 | - | - | 216 |
| Others | 3,324,806 | (22,073,339) | (2,988,342) | 5,412,291 | (16,324,584) |
| Deferred tax asset(liabilities) of subsidiaries | 119,756,789 | (27,789,257) | (3,886,395) | - | 88,081,137 |
| Deferred tax asset(liabilities) related with consolidation adjustment | 339,618 | 727,696 | - | - | 1,067,314 |
| | ₩ 121,929,647 | ₩ (35,204,894) | ₩ (13,212,339) | ₩ 5,412,291 | ₩ 78,924,705 |
| Tax credit and tax reduction | 54,407,204 | (21,284,310) | 11,029,390 | - | 44,152,284 |
| | ₩ 176,336,851 | ₩ (56,489,204) | ₩ (2,182,949) | ₩ 5,412,291 | ₩ 123,076,989 |

(in thousands of Korean won)

| | 2016 | | | |
|---|-------------------|-----------------------------|----------------------------|----------------|
| | Beginning balance | Statement of profit or loss | Other comprehensive income | Ending balance |
| Property, plant and equipment | ₩ (21,806,066) | ₩ 11,259,366 | ₩ - | ₩ (10,546,700) |
| Inventories | 1,360,238 | (338,222) | - | 1,022,016 |
| Accrued income | (161,053) | 25,889 | - | (135,164) |
| Derivatives | 4,582 | (163,824) | - | (159,242) |
| Long-term employee benefit | 3,648,912 | 548,545 | - | 4,197,457 |
| Other Provision | 15,237,949 | (221,461) | - | 15,016,488 |
| Post-employment benefit obligation | 442,734 | (2,710,525) | 2,146,282 | (121,509) |
| Accrued expense | 2,581,656 | 2,485,206 | - | 5,066,862 |
| Advanced depreciation provision for non-depreciable assets | (11,868,748) | (3,624,524) | - | (15,493,272) |
| Advanced depreciation provision for depreciable assets | (321,488) | 26,560 | - | (294,928) |
| Gains and losses on foreign currency translation | (1,333,147) | 1,289,573 | - | (43,574) |
| Others | 13,570,068 | (10,245,262) | - | 3,324,806 |
| Deferred tax asset(liabilities) of subsidiaries | 129,026,810 | (10,267,167) | 997,146 | 119,756,789 |
| Deferred tax asset(liabilities) related with consolidation adjustment | 292,813 | 46,805 | - | 339,618 |
| | 130,675,260 | (11,889,041) | 3,143,428 | 121,929,647 |
| Tax credit and tax reduction | - | 52,246,223 | 2,160,981 | 54,407,204 |
| | ₩ 130,675,260 | ₩ 40,357,182 | ₩ 5,304,409 | ₩ 176,336,851 |

Details of unrecognized taxable temporary differences as deferred tax liabilities as at December 31,

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2017 and 2016, are as follows:

| <i>(in thousands of Korean won)</i> | 2017 | 2016 | Remarks |
|-------------------------------------|-----------------|-----------------|------------------------------------|
| Investments in subsidiaries | ₩ 2,292,662,810 | ₩ 2,220,717,260 | No plan to dispose the investments |

34. Expenses by Nature

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

(in thousands of Korean won)

| | 2017 | | | |
|--------------------------------------|------------------------|-------------------------------------|-----------------------------------|------------------------|
| | Cost of sales | Selling and administrative expenses | Research and development expenses | Total |
| Changes in inventories: | | | | |
| Finished goods | ₩ 29,460,667 | ₩ - | ₩ - | ₩ 29,460,667 |
| Work in process | (2,469,272) | - | - | (2,469,272) |
| Supplies | (3,302,954) | - | - | (3,302,954) |
| Raw materials | (91,619,593) | - | - | (91,619,593) |
| Purchase of raw materials and others | 2,832,544,472 | - | - | 2,832,544,472 |
| Employees benefits | 688,101,574 | 241,423,593 | 86,995,655 | 1,016,520,822 |
| Depreciation ¹ | 468,536,297 | 36,552,653 | 26,276,815 | 531,365,765 |
| Amortization | 3,491,882 | 12,820,265 | 1,446,621 | 17,758,768 |
| Commission fees | 47,338,990 | 59,310,634 | 5,847,668 | 112,497,292 |
| Others | 520,301,605 | 999,273,769 | 57,094,870 | 1,576,670,244 |
| | <u>₩ 4,492,383,668</u> | <u>₩ 1,349,380,914</u> | <u>₩ 177,661,629</u> | <u>₩ 6,019,426,211</u> |

¹ Depreciation of investment properties are included.

(in thousands of Korean won)

| | 2017 | | | |
|--------------------------------------|----------------|-------------------------------------|-----------------------------------|----------------|
| | Cost of sales | Selling and administrative expenses | Research and development expenses | Total |
| Changes in inventories: | | | | |
| Finished goods | ₩ (32,104,716) | ₩ - | ₩ - | ₩ (32,104,716) |
| Work in process | (4,747,430) | - | - | (4,747,430) |
| Supplies | 2,307,585 | - | - | 2,307,585 |
| Raw materials | 12,180,088 | - | - | 12,180,088 |
| Purchase of raw materials and others | 2,291,774,762 | - | - | 2,291,774,762 |
| Employees benefits | 635,046,976 | 249,169,146 | 89,200,343 | 973,416,465 |
| Depreciation ¹ | 436,688,427 | 39,915,314 | 12,348,610 | 488,952,351 |
| Amortization | 3,530,249 | 8,990,374 | 1,332,421 | 13,853,044 |
| Commission fees | 39,683,076 | 56,470,947 | 5,540,841 | 101,694,864 |
| Others | 660,669,241 | 951,887,610 | 58,650,669 | 1,671,207,520 |

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| | | | |
|-----------------|-----------------|---------------|-----------------|
| ₩ 4,045,028,258 | ₩ 1,306,433,391 | ₩ 167,072,884 | ₩ 5,518,534,533 |
|-----------------|-----------------|---------------|-----------------|

¹ Depreciation of investment properties are included.

35. Earnings per Share

The basic and diluted earnings per share for the years ended December 31, 2017 and 2016, are computed as follows:

| <i>(in Korean won)</i> | 2017 | 2016 |
|---|--------------------|--------------------|
| Profit for the year | ₩ 599,063,937,358 | ₩ 872,851,250,675 |
| Dividends for preferred shares | - | - |
| Profit attributable to the ordinary equity holders of the Parent Company | 599,063,937,358 | 872,851,250,675 |
| Weighted-average number of ordinary shares outstanding (in shares) ¹ | <u>123,852,681</u> | <u>123,852,681</u> |
| Basic and diluted earnings per share ² | <u>₩ 4,837</u> | <u>₩ 7,047</u> |

¹ Weighted average number of ordinary shares outstanding is calculated considering outstanding ordinary shares divided by outstanding period, excluding number of treasury shares.

² Basic and diluted earnings per share are the same because there is no potentially dilutive ordinary share issued by the Group.

36. Operating Segment Information

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

The Group is mainly operating in five geographical regions. Net sales information by geographical region for the years ended December 31, 2017 and 2016, are as follows:

| | 2017 | | 2016 | |
|---------------------------|------------------------|------------------|------------------------|------------------|
| | Amount | Ratio (%) | Amount | Ratio (%) |
| North America | ₩ 1,904,235,860 | 28.0 | ₩ 1,869,457,636 | 28.2 |
| South and Central America | 243,598,182 | 3.6 | 183,575,151 | 2.8 |
| Asia, except Korea | 1,505,304,849 | 22.1 | 1,452,154,010 | 21.9 |
| Europe | 2,166,156,264 | 31.8 | 1,976,234,148 | 29.8 |
| Domestic | 993,562,827 | 14.5 | 1,140,341,346 | 17.3 |
| | <u>₩ 6,812,857,982</u> | <u>100.0</u> | <u>₩ 6,621,762,291</u> | <u>100.0</u> |

There is no external customer, who contributes more than 10% of the Group's total revenue for the years ended December 31, 2017 and 2016.

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At the end of the reporting period, non-current assets broken down by location of the assets are shown as follows:

| <i>(in thousands of Korean won)</i> | | 2017 | | 2016 |
|-------------------------------------|---|----------------------|---|----------------------|
| North America | ₩ | 621,559,636 | ₩ | 678,501,476 |
| South and Central America | | 1,234,683 | | 554,187 |
| Asia, except Korea | | 1,829,083,987 | | 2,048,550,498 |
| Europe | | 466,178,942 | | 526,160,109 |
| Domestic | | 1,790,871,471 | | 1,795,141,500 |
| | ₩ | <u>4,708,928,719</u> | ₩ | <u>5,048,907,770</u> |

Financial assets, deferred tax assets, investment in subsidiaries and net defined benefit assets are excluded from non-current assets.

37. Cash Generated from Operations

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

| <i>(in thousands of Korean won)</i> | | 2017 | | 2016 |
|---|---|--------------|---|--------------|
| Adjustments: | | | | |
| Income tax expense | ₩ | 136,579,501 | ₩ | 213,326,123 |
| Gain on investments in associates | | (36,104,778) | | (44,851,982) |
| Gain on disposal of other investment assets | | (45,620) | | - |
| Interest income | | (11,890,324) | | (6,800,616) |
| Interest expense | | 58,647,115 | | 45,557,638 |
| Dividend income | | (69,771) | | (182,722) |
| Gains on foreign currency translation | | (70,899,407) | | (93,740,307) |
| Losses on foreign currency translation | | 73,481,787 | | 116,123,066 |
| Gains on foreign currency transaction | | (3,675,552) | | - |
| Losses on disposal of available-for-sale financial assets | | 108 | | 789 |
| Losses on valuation/abandonment of inventories | | 24,327,735 | | 7,303,269 |
| Losses on disposal of trade receivables | | 103,453 | | 105,287 |
| Impairment loss on trade receivables | | 669,743 | | 718,524 |
| Other impairment loss | | (46,768) | | 72,731 |
| Gains on disposal of property, plant and equipment | | (3,079,339) | | (4,734,704) |
| Losses on disposal of property, plant and equipment | | 4,917,468 | | 8,802,413 |
| Losses on abandonment of property, plant and equipment | | 8,785 | | 4,627 |
| Losses on disposal of intangible assets | | 695 | | 688 |

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| | | |
|---|---------------|---------------|
| Impairment loss of intangible assets | 6,067,460 | 650,492 |
| Casualty loss | 575,431 | 1,970,219 |
| Depreciation of property, plant and equipment | 530,334,970 | 487,942,784 |
| Depreciation of investment properties | 1,030,795 | 1,009,567 |
| Amortization of intangible assets | 17,758,768 | 13,853,044 |
| Increase in other provisions | 171,854 | 547,263 |
| Sales damage expense | 16,800,598 | (4,003,087) |
| Employee welfare benefit | 1,383,654 | 3,627,647 |
| Post-employment benefit | 57,716,757 | 58,601,978 |
| Gains on valuation of derivatives | (5,695,291) | (5,431,695) |
| Losses on valuation of derivatives | 5,028,549 | 1,193,541 |
| Gains on transaction of derivatives | (4,400,751) | (5,396,047) |
| Losses on transaction of derivatives | 5,584,989 | 1,265,065 |
| | ₩ 805,282,614 | ₩ 797,535,595 |

(in thousands of Korean won)

2017

2016

Changes in operating assets and liabilities:

| | | |
|--|-----------------|-----------------|
| Decrease (increase) in trade receivables | ₩ 3,583,431 | ₩ (44,412,238) |
| Decrease (increase) in other receivables | 146,466,335 | (73,943,398) |
| Increase in inventories | (172,007,632) | (11,839,607) |
| Decrease in other financial assets | 1,169,571 | 462,637 |
| Decrease in other assets | 13,425,845 | 5,187,494 |
| Decrease in trade payables | (136,777,370) | (87,262) |
| Decrease in other payables | (917,353) | (70,972,186) |
| Decrease in provision | (24,856,430) | (17,963,911) |
| Decrease in other financial liabilities | (404,755) | (282,558) |
| Increase (decrease) in other liabilities | (140,757,525) | 56,171,237 |
| Payment of post-employment benefits | (43,681,338) | (28,833,480) |
| Increase in plan assets | (15,531,828) | (50,095,682) |
| | ₩ (370,289,049) | ₩ (236,608,954) |

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

(in thousands of Korean won)

2017

2016

| | | |
|---|---------------|---------------|
| Transfer of construction in progress to property, plant and equipment | ₩ 835,453,332 | ₩ 198,600,072 |
| Increase in non-trade payables in relation to acquisition of fixed assets | 14,106,078 | 78,113,433 |
| Payment of non-trade payables in relation to acquisition of fixed assets recognized in the prior year | 75,284,269 | 59,165,607 |
| Capitalized borrowing costs | 3,667,381 | 5,840,374 |

Changes in liabilities arising from financial activities for the years ended December 31, 2017 and

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2016, are as follows:

| <i>(in thousands of Korean won)</i> | Liabilities from financing activities | | | | |
|-------------------------------------|---------------------------------------|----------------------|----------------------|--------------------------|-------------------|
| | Short-term borrowings | Long-term borrowings | Debentures (current) | Debentures (Non-current) | Dividend payables |
| At January 1, 2017 | ₩ 1,121,604,955 | ₩ 265,954,277 | ₩ 130,381,159 | ₩ 809,394,766 | ₩ 19,485 |
| Exchange differences | (66,671,950) | (30,610,676) | - | (35,211,596) | - |
| Cash flows | (210,188,844) | 112,604,000 | (130,425,000) | - | (53,662,812) |
| Transfer | 133,667,601 | (133,667,601) | 249,951,373 | (249,951,373) | - |
| Amortization cost for debentures | - | - | 43,841 | 879,892 | - |
| Business combinations and other | 5,704,700 | - | - | - | - |
| Other (Declared dividends) | - | - | - | - | 53,667,641 |
| At December 31, 2017 | ₩ 984,116,462 | ₩ 214,280,000 | ₩ 249,951,373 | ₩ 525,111,689 | ₩ 24,314 |

38. Contingencies and Commitments

Pledged assets as collaterals

As at December 31, 2017, a certain portion of the Group's land, buildings, machinery and equipment is pledged as collaterals for borrowings as follows:

| <i>(in thousands of Korean won, USD, CNY)</i> | Pledged assets | Pledged amounts |
|---|---------------------------------|-----------------|
| The Korea Development Bank and others | Land, buildings, machinery | KRW 260,140,000 |
| | and short-term financial assets | USD 153,200 |
| | | CNY 311,955 |

Buildings, inventories, machinery and others are insured against a general liability insurance policy. As at December 31, 2017, there is no significant changes for insured assets from December 31, 2016.

The beneficial interest of insurance for buildings and machinery is pledged as collateral for the Group's borrowings (The Korea Development Bank: ₩122,000,000 thousand and USD 110,000 thousand; Woori Bank: ₩138,140,000 thousand and USD 43,200 thousand; Bank of China: CNY 296,270 thousand; Agricultural Bank of China: CNY 15,685 thousand).

The Group is insured against potential future claims that may occur under the Product Liability Act in the Republic of Korea that was effective since July 1, 2002, which penalizes a manufacturer or seller when a product is defective and causes injury or damage to a person or property. The Group recognizes the best estimate amounting to ₩ 4,473,763 thousand, which is expected to be paid, as provision for product liabilities (Note 19).

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

Transfer of financial assets

Financial assets and associated liabilities that are transferred, but not derecognized entirely, at the end of the reporting period, are as follows:

| <i>(in thousands of Korean won)</i> | | 2017 | | 2016 |
|---|---|-------------|---|-------------|
| Carrying amount of assets | ₩ | 653,760,643 | ₩ | 492,930,595 |
| Carrying amount of the associated liabilities | | 653,760,643 | | 492,930,595 |

Purchase agreement

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

Financing arrangements

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

| <i>(in thousands of Korean won)</i> | | 2017 | | 2016 |
|--|--------|------------------------|---|------------------------|
| Credit line agreements on discount trade | Used | ₩ 1,251,411,669 | ₩ | 1,571,836,911 |
| receivable in foreign currencies and | Unused | 3,635,538,891 | | 4,004,374,326 |
| others ¹ | | <u>₩ 4,886,950,560</u> | | <u>₩ 5,576,211,237</u> |

¹ The Group may enter into bills bought and usance L/C transactions for up to USD 10,000 thousand with Standard Chartered Bank and for up to USD 200,000 thousand with KB Kookmin Bank.

Seoul Guarantee Insurance Co., Ltd. has provided guarantee amount to ₩962,596 thousand (2016: ₩872,413 thousand) for performance guarantee and others.

Pending litigations

As at December 31, 2017, the Group has two pending lawsuits in relation to overtime charges and related additional wage claims amounting to ₩ 3,290,884 thousand in total with current or retired employees, and the lawsuits are in process of third trial. As a result of second trial, the Group recognized the principal obligated for the payment as other provisions amounting to ₩538,853 thousand, and this amount is subject to change as a result of litigation.

Additionally, the Group has outstanding cases as a defendant or as a plaintiff. The management believes that the outcome of these cases will not have a significantly impact on the Group's financial position.

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Coinvestment agreement of shares acquisition

The Group acquired 20,806,200 shares of Hanon Systems Co., Ltd.(19.49% of ownership) from VIHI LLC, the largest shareholder of Hanon Systems Co., Ltd.

a) Details of Shares Purchase Agreement

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

b) Contract between shareholders

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

39. Related Party Transactions

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

| Type | Name of related parties |
|---|---|
| Individuals | Yang-Rai Cho, Hyun-Shick Cho, Hyun-Bum Cho |
| Holding company ¹ | Hankook Tire Worldwide Co., Ltd. |
| Holding company's subsidiaries and associates | Atlas BX Co., Ltd., Atlas BX Motorsports Co., Ltd., Atlasbx America Corporation, HK Automotive Co., Ltd., Flying Motors Co., Ltd., HK Motors Co., Ltd., ³ EmFrontier Inc., Emfrontier America Inc., PT. EMFRONTIER ENS Indonesia |
| Domestic associates | Hanon Systems Co., Ltd. |
| Other related parties ² | Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery Jiaxing Co., Ltd., Another WTE Co., Ltd., H-2 WTE Co., Ltd., Another Geumsan Co., Ltd., YOUKNOWTECH Co., Ltd. |

¹ The entity has a significant influence on the Group.

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

³ During the year ended December 31, 2017, the entire interests in the entity was sold to HK AUTOMOTIVE CO.,LTD, a subsidiary of Hankook Tire Worldwide Co., Ltd., a holding company. Therefore, the entity was reclassified from the domestic subsidiary to the holding company's subsidiary.

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

a) Sales and others

(in thousands of Korean won)

| | 2017 | | | 2016 | | |
|---|-----------------|-------------------|-------------------|-----------------|-----------------|-------------------|
| | Sales | Others | Total | Sales | Others | Total |
| Hankook Tire Worldwide Co., Ltd. | ₩ - | ₩ 447,738 | ₩ 447,738 | ₩ - | ₩507,490 | ₩507,490 |
| Atlas BX Co., Ltd. | 179,050 | 534,511 | 713,561 | 23,500 | 413,616 | 437,116 |
| EmFrontier Inc. | - | 24,841 | 24,841 | - | 41,503 | 41,503 |
| HK Auto Motive Co., Ltd. | - | 3,651 | 3,651 | - | - | - |
| Flying Motors Co., Ltd. | - | 8,891 | 8,891 | - | - | - |
| Atlas BX Motorsports Co., Ltd. | 60,100 | - | 60,100 | - | - | - |
| Daehwa Eng'& Machinery Jiaxing Co., Ltd. | 503,346 | - | 503,346 | 810,451 | - | 810,451 |
| | <u>₩742,496</u> | <u>₩1,019,632</u> | <u>₩1,762,128</u> | <u>₩833,951</u> | <u>₩962,609</u> | <u>₩1,796,560</u> |

b) Purchases and others

(in thousands of Korean won)

| | 2017 | | | 2016 | | |
|---|--------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| | Purchases | Others ¹ | Total | Purchases | Others | Total |
| Hankook Tire Worldwide Co., Ltd. ² | ₩ - | ₩73,608,560 | ₩73,608,560 | ₩ - | ₩76,710,922 | ₩76,710,922 |
| Atlas BX Co., Ltd. | 37,424,770 | - | 37,424,770 | 39,903,920 | - | 39,903,920 |
| Atlas BX Motorsports Co., Ltd. | - | 679,928 | 679,928 | - | 350,000 | 350,000 |
| HK Motors Co., Ltd. | - | 1,472,229 | 1,472,229 | - | - | - |
| EmFrontier Inc. | - | 66,111,042 | 66,111,042 | - | 65,917,809 | 65,917,809 |
| Emfrontier America Inc. | - | 3,300,413 | 3,300,413 | - | 2,172,757 | 2,172,757 |
| Shin-Yang Tourist Development | - | 208,598 | 208,598 | - | 201,284 | 201,284 |
| | <u>₩37,424,770</u> | <u>₩145,380,770</u> | <u>₩182,805,540</u> | <u>₩39,903,920</u> | <u>₩145,352,772</u> | <u>₩185,256,692</u> |

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

² The Group entered into a service supporting agreement and a trademark license agreement with Hankook Tire Worldwide Co., Ltd.

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Outstanding balances of receivables and payables as at December 31, 2017 and 2016, are as follows:

a) Receivables and others

(in thousands of Korean won)

| | 2017 | | | 2016 | | |
|---|-------------------|-----------------------|-------------------|-------------------|-----------------------|--------------------|
| | Trade receivables | Non-trade receivables | Total | Trade receivables | Non-trade receivables | Total |
| Hankook Tire Worldwide Co., Ltd. | ₩ - | ₩1,979,701 | ₩1,979,701 | ₩ - | ₩1,940,638 | ₩ 1,940,638 |
| Atlas BX Co., Ltd. | - | 149,050 | 149,050 | 25,850 | - | 25,850 |
| Flying Motors Co., Ltd. | - | 3,510 | 3,510 | - | - | - |
| EmFrontier Inc. | - | 3,300 | 3,300 | - | - | - |
| HK Motors Co., Ltd. | - | 2,653 | 2,653 | - | - | - |
| Atlasbx America Corporation | 149,050 | - | 149,050 | - | - | - |
| Daehwa Eng' & Machinery Jiaxing Co., Ltd. | - | 415,056 | 415,056 | - | 609,134 | 609,134 |
| Shin-Yang Tourist Development | - | 400,000 | 400,000 | - | 400,000 | 400,000 |
| | <u>₩149,050</u> | <u>₩2,953,270</u> | <u>₩3,102,320</u> | <u>₩ 25,850</u> | <u>₩2,949,772</u> | <u>₩ 2,975,622</u> |

b) Payables and others

(in thousands of Korean won)

| | 2017 | | | 2016 | | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|---------------------|
| | Trade payable | Non-trade payables | Total | Trade payable | Non-trade payables | Total |
| Hankook Tire Worldwide Co., Ltd. | ₩ - | ₩26,911,880 | ₩26,911,880 | ₩ - | ₩84,977,202 | ₩84,977,202 |
| Atlas BX Co., Ltd. | 15,630,383 | 168,742 | 15,799,125 | 17,451,702 | - | 17,451,702 |
| HK Motors Co., Ltd. | - | - | - | - | - | - |
| EmFrontier Inc. | - | 19,072,330 | 19,072,330 | - | 17,685,272 | 17,685,272 |
| Shin-Yang Tourist Development | - | 19,510 | 19,510 | - | 18,324 | 18,324 |
| | <u>₩15,630,383</u> | <u>₩46,172,462</u> | <u>₩61,802,845</u> | <u>₩17,451,702</u> | <u>₩102,680,798</u> | <u>₩120,132,500</u> |

Hankook Tire Worldwide Co., Ltd. (the surviving company) is jointly and severally liable for the Group's liabilities incurred before the spin-off. The outstanding balance of payment guarantee and credit facility agreements provided by Hankook Tire Worldwide Co., Ltd. jointly and severally at the end of reporting period are as follows:

(in thousands of Korean won, HUF, USD)

| | 2017 | | 2016 | |
|------------------------------------|------------------|-----------------------|------------------|-----------------------|
| | Foreign currency | Korean won equivalent | Foreign currency | Korean won equivalent |
| Payment guarantee HUF ¹ | - | - | 15,881,000 | ₩ 64,794,480 |
| Credit facility agreements USD | 70,000 | ₩ 74,998,000 | 70,000 | ₩ 84,595,000 |

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

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

Borrowing transactions with related parties for the years ended December 31, 2017 and 2016, are as follows:

| | | 2017 | | | | | |
|-------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|-------------------------------------|-----------------|-----------------------|
| <i>(in thousands of Korean won)</i> | | Beginning balance | Borrowings | Repayments | Foreign currency translation | Transfer | Ending balance |
| Hankook Tire Worldwide Co., Ltd. | Short-term borrowings | ₩ 54,750,160 | ₩ - | ₩ (51,074,608) | ₩ (3,675,552) | ₩ - | ₩ - |
| | | <u>₩ 54,750,160</u> | <u>₩ -</u> | <u>₩ (51,074,608)</u> | <u>₩ (3,675,552)</u> | <u>₩ -</u> | <u>₩ -</u> |
| | | 2016 | | | | | |
| <i>(in thousands of Korean won)</i> | | Beginning balance | Borrowings | Repayments | Foreign currency translation | Transfer | Ending balance |
| Hankook Tire Worldwide Co., Ltd. | Short-term borrowings | ₩ 35,160,000 | ₩ 56,996,920 | ₩(92,213,800) | ₩ (2,246,760) | ₩57,053,800 | ₩ 54,750,160 |
| | Long-term borrowings | 57,053,800 | - | - | - | (57,053,800) | - |
| | | <u>₩ 92,213,800</u> | <u>₩ 56,996,920</u> | <u>₩(92,213,800)</u> | <u>₩ (2,246,760)</u> | <u>₩ -</u> | <u>₩ 54,750,160</u> |

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

| | | 2017 | | 2016 | |
|-----------------|---------------------------------|------------------------|----------------------|------------------------|------------------------------|
| | | Dividend income | Dividend paid | Dividend income | Contributions in cash |
| Holding company | Hankook Tire Worldwide Co., Ltd | ₩ 31,209,300 | ₩ - | ₩ 35,786,664 | ₩ - |
| Associate | Hanon Systems Co., Ltd. | - | 12,469,811 | - | 12,469,811 |
| | | <u>₩ 31,209,300</u> | <u>₩ 12,469,811</u> | <u>₩ 35,786,664</u> | <u>₩ 12,469,811</u> |

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

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

| <i>(in thousands of Korean won)</i> | 2017 | | 2016 | |
|-------------------------------------|-------------|-------------------|-------------|-------------------|
| Salaries | ₩ | 9,820,543 | ₩ | 9,315,012 |
| Post-employment benefits | | <u>1,449,112</u> | | <u>1,919,604</u> |
| | ₩ | <u>11,269,655</u> | ₩ | <u>11,234,616</u> |

40. Business Combination and Disposal

During the year ended December 31, 2017, Hankook Tyre Australia Retail Pty., Ltd., a subsidiary of the Group, acquired 100% of issued shares in the tire distribution department of JAX Tyres (consist of JAX Quickfit Franchising Systems Unit Trust., JAX Quickfit Franchising Systems PtyLtd., JAX Quickfit Properties Pty Ltd.) and obtained control.

The goodwill of ₩30,528,613 thousand arising from the acquisition is attributable to economies of scale expected from combining the Group and the tire distribution department of JAX Tyres.

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

| <i>(in thousands of Korean won)</i> | Amount | |
|--|---------------|--------------------|
| Consideration transferred | ₩ | <u>54,770,773</u> |
| Recognized amounts of identifiable assets acquired and liabilities assumed | | |
| Cash and cash equivalents | ₩ | 942,103 |
| Trade receivables | | 12,449,892 |
| Property, plant and equipment | | 1,015,526 |
| Intangible assets ¹ | | 30,173,806 |
| Other receivables | | 5,741,920 |
| Other payables | | (15,637,286) |
| Short-term borrowings | | <u>(5,704,700)</u> |
| Net identifiable assets acquired | | <u>(4,739,101)</u> |
| Goodwill | | <u>30,528,613</u> |
| | ₩ | <u>54,770,773</u> |

¹ Identified brand value of ₩ 8,913,449 thousand, customer relationship of 17,654,519 thousand, software of 3,580,741 thousand are included.

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

During the year ended December 31, 2017, the Group disposed 100% shares of HK Motors Co., Ltd. to HK Automotive, a subsidiary of Hankook Tire Worldwide Co., Ltd. which is the Group's holding company, to increase efficiency through a restructuring of operation division. Details of the consideration received, the assets and liabilities at the disposal date and gain(loss) on disposal are as follows:

| <i>(in thousands of Korean won)</i> | Amount | |
|--|---------------|-----------|
| Consideration transferred | ₩ | 921,287 |
| Eliminations of assets and liabilities | | |
| Cash and cash equivalents | ₩ | 422,846 |
| Trade receivables | | 150,171 |
| Inventories | | 393,121 |
| Property, plant and equipment | | 26,351 |
| Other receivables | | 228,076 |
| Other payables | | (344,897) |
| Net assets eliminated | | 875,668 |
| Gain on disposal | ₩ | 45,619 |

41. Events After the Reporting Period

Due to reorganization of Hankook Tire Worldwide Co., Ltd., Hankook Tire Worldwide Co., Ltd. transferred its control over some organizations to the Group. The transfer of assets and liabilities due to reorganization of certain associates will be proceeded according to the appropriate regulations.

After the end of the reporting period, the Group issued foreign currency corporate debentures amounting to USD 300,000 thousand to pay existing debentures and operation purpose.