

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

Hankook Tire Co., Ltd. and Subsidiaries

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December 31, 2017 and 2016

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
Hankook Tire 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

(in thousands of Korean won)

	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	<u>(4,492,383,668)</u>	<u>(4,045,028,258)</u>
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	<u>(177,661,628)</u>	<u>(167,072,884)</u>
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	<u>36,104,778</u>	<u>44,851,981</u>
Profit before income tax		743,036,343	1,092,416,339
Income tax expense	33	<u>(136,579,502)</u>	<u>(213,326,123)</u>
Profit for the year		<u>₩ 606,456,841</u>	<u>₩ 879,090,216</u>
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	<u>(163,648,962)</u>	<u>1,524,073</u>
Other comprehensive income for the year, net of tax		<u>(140,767,103)</u>	<u>(8,858,026)</u>
Total comprehensive income for the year		<u>₩ 465,689,738</u>	<u>₩ 870,232,190</u>
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

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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

Hankook Tire Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

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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	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	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>

Hankook Tire Co., Ltd. and Subsidiaries
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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.

Hankook Tire Co., Ltd. and Subsidiaries
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9. Other Financial Assets

Details of other financial assets 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
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:

<i>(in thousands of Korean won)</i>	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:

<i>(in thousands of Korean won)</i>	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>

Hankook Tire Co., Ltd. and Subsidiaries

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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

Hankook Tire Co., Ltd. and Subsidiaries
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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
<i>(in thousands of Korean won)</i>				
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

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

	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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(in thousands of Korean won)	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:

(in thousands of Korean won)	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.

(in percentage, %)	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
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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:

<i>(in thousands of Korean won)</i>	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	<u>₩ 984,116,462</u>	<u>₩ 214,280,000</u>	<u>₩ 249,951,373</u>	<u>₩ 525,111,689</u>	<u>₩ 24,314</u>

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.

Hankook Tire Co., Ltd. and Subsidiaries

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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>

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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.

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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.