



HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013,
AND THE FOUR MONTHS ENDED DECEMBER 31, 2012,
AND INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying consolidated financial statements of Hankook Tire Co., Ltd. and its subsidiaries (collectively, the "Group"). The consolidated financial statements consist of the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows, all expressed in Korean won, for the year ended December 31, 2013, and the four months ended December 31, 2012. The Group's management is responsible for the preparation and fair presentation of the consolidated financial statements, and our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of other subsidiaries whose financial statements represent 18.1% and 51.9% of the Group's consolidated total assets as of December 31, 2013 and 2012, respectively. Those subsidiaries represent 44.2% and 62.9% of the Group's consolidated total sales for the year ended December 31, 2013, and the four months ended December 31, 2012, respectively.

We conducted our audit in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012, and its results of operations and its cash flows for the year ended December 31, 2013, and the four months ended December 31, 2012, in conformity with Korean International Financial Reporting Standards.

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean accounting principles and auditing standards and their application in practice.

Deloitte Anjin LLC

March 20, 2014

Notice to Readers

This report is effective as of March 20, 2014, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditors' report.

**HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES
("THE GROUP")**

CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013
AND THE FOUR MONTHS ENDED DECEMBER 31, 2012

The accompanying consolidated financial statements, including all footnote disclosures, were prepared by, and are the responsibility of, Hankook Tire Co., Ltd.

Seo, Seung Hwa
Chief Executive Officer
Hankook Tire Co., Ltd.

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012

	Notes	December 31, 2013	December 31, 2012
		(Korean won in thousands)	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	35,36	₩ 682,413,905	₩ 485,612,512
Short-term financial assets	4,36	482,458,755	194,283,138
Trade and other accounts receivable	5,15,34,36	1,190,996,049	1,184,405,376
Inventories	8	1,472,464,615	1,391,723,116
Other financial assets	7,36	2,291,371	1,718,890
Other current assets	9	121,619,520	79,123,789
TOTAL CURRENT ASSETS		3,952,244,215	3,336,866,821
NON-CURRENT ASSETS:			
Long-term financial assets	4,36	71,909	94,550
AFS financial assets	6,36	3,079,761	2,776,458
Property, plant and equipment	11,37	3,497,977,900	3,571,590,662
Investment property	12	108,178,641	50,113,341
Intangible assets	13	124,836,109	116,615,826
Other financial assets	7,36	15,044,366	14,216,853
Other non-current assets	9	195,310	2,461,283
Deferred tax assets	30	75,085,180	87,718,650
TOTAL NON-CURRENT ASSETS		3,824,469,176	3,845,587,623
TOTAL ASSETS		₩ 7,776,713,391	₩ 7,182,454,444

(Continued)

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2013 AND 2012

	Notes	December 31, 2013	December 31, 2012
		(Korean won in thousands)	
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES:			
Trade and other accounts payable	14,34,36	₩ 924,983,718	₩ 939,616,371
Short-term borrowings and current portions of long-term financial liabilities	15,36	1,755,566,062	1,933,292,680
Current tax liabilities		147,406,861	59,237,169
Other financial liabilities	16,36	-	303,164
Other current liabilities	19	114,300,955	58,622,840
TOTAL CURRENT LIABILITIES		2,942,257,596	2,991,072,224
NON-CURRENT LIABILITIES:			
Long-term borrowings and debentures	15,36	822,888,553	883,936,980
Retirement benefit obligation	17	16,859,440	16,223,863
Other provisions	18,37	65,895,354	65,883,993
Other financial liabilities	16,36	4,676,638	3,851,762
TOTAL NON-CURRENT LIABILITIES		910,319,985	969,896,598
TOTAL LIABILITIES		3,852,577,581	3,960,968,822
SHAREHOLDERS' EQUITY			
Capital stock	20	61,937,535	61,937,535
Other paid-in capital	21	2,992,377,720	2,992,377,720
Retained earnings	22	909,195,718	211,566,946
Other equity	23	(45,974,035)	(53,812,774)
Non-controlling interest		6,598,872	9,416,195
TOTAL SHAREHOLDERS' EQUITY		3,924,135,810	3,221,485,622
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		₩ 7,776,713,391	₩ 7,182,454,444

(Concluded)

See accompanying notes to consolidated financial statements.

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013,
AND THE FOUR MONTHS ENDED DECEMBER 31, 2012

	Notes	2013	2012
		(Korean won in thousands, except for income per share data)	
SALES	24,33,34	₩ 7,069,237,653	₩ 2,317,223,404
COST OF SALES	24,31,34	<u>(4,710,850,601)</u>	<u>(1,561,773,167)</u>
GROSS PROFIT		<u>2,358,387,052</u>	<u>755,450,237</u>
Selling expenses	25,31	(642,388,784)	(230,195,508)
Administrative expenses	25,31	(561,055,584)	(169,104,209)
Research and development expenses	31	<u>(123,936,188)</u>	<u>(47,558,338)</u>
OPERATING INCOME		<u>1,031,006,496</u>	<u>308,592,182</u>
Financial income	26	58,053,028	13,767,112
Financial expense	27	(106,408,953)	(50,928,604)
Other operating income	28	211,594,395	110,828,640
Other operating expense	29	<u>(204,569,517)</u>	<u>(88,730,974)</u>
INCOME BEFORE INCOME TAX EXPENSE		<u>989,675,449</u>	<u>293,528,356</u>
INCOME TAX EXPENSE	30	<u>(254,643,563)</u>	<u>(62,514,281)</u>
NET INCOME		<u>₩ 735,031,886</u>	<u>₩ 231,014,075</u>
OTHER COMPREHENSIVE INCOME (LOSS)		₩ 17,159,375	₩ (74,106,831)
Items not to be reclassified subsequently to profit or loss:			
Remeasurement on retirement benefit obligation	17	12,178,024	(26,536,452)
Tax effects on the other comprehensive income	30	<u>(2,941,183)</u>	<u>6,413,977</u>
		<u>9,236,841</u>	<u>₩ (20,122,475)</u>
Items to be reclassified subsequently to profit or loss:			
Gains on valuation of AFS financial assets	23	₩ 647,066	₩ (36,522)
Gain on valuation of foreign exchange forward contract	23	303,164	(303,164)
Exchange differences on translating foreign operations	23	7,546,758	(52,643,140)
Tax effects on the other comprehensive income	23,30	<u>(574,454)</u>	<u>(1,001,530)</u>
		<u>₩ 7,922,534</u>	<u>₩ (53,984,356)</u>
COMPREHENSIVE INCOME		<u>₩ 752,191,261</u>	<u>₩ 156,907,244</u>
NET INCOME ATTRIBUTABLE TO:			
Owners of the Company		₩ 737,926,606	₩ 231,568,971
Non-controlling interests		(2,894,720)	(554,896)

(Continued)

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013,
AND THE FOUR MONTHS ENDED DECEMBER 31, 2012

	Notes	2013		2012
		(Korean won in thousands, except for income per share data)		
COMPREHENSIVE INCOME				
ATTRIBUTABLE TO:				
Owners of the Company		₩ 755,008,584	₩	157,754,172
Non-controlling interests		(2,817,323)		(846,928)
NET INCOME PER SHARE (Korean won)				
Basic and diluted income per share	32	₩ 5,958	₩	1,870

(Concluded)

See accompanying notes to consolidated financial statements.

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013,
AND THE FOUR MONTHS ENDED DECEMBER 31, 2012

(Korean won in thousands)

	Other paid-in capital		Retained earnings	Other equity	Controlling equity	Non-controlling interests	Total	
	Capital stock	Additional paid-in capital						
As of September 1, 2012	₩ 61,937,535	₩ 2,993,465,738	₩ -	₩ -	₩ 3,055,403,273	₩ 10,263,122	₩ 3,065,666,395	
Comprehensive income	-	-	211,566,946	(53,812,774)	157,754,172	(846,928)	156,907,244	
Net income	-	-	231,568,971	-	231,568,971	(554,896)	231,014,075	
Gain on valuation of AFS financial assets, net	-	-	-	(38,289)	(38,289)	278	(38,011)	
Cash flow hedging reserve	-	-	-	(229,798)	(229,798)	-	(229,798)	
Exchange differences on translating foreign operations	-	-	-	(53,544,687)	(53,544,687)	(171,859)	(53,716,546)	
Remeasurement of retirement benefit plan	-	-	(20,002,025)	-	(20,002,025)	(120,450)	(20,122,475)	
Acquisition of treasury stock	-	-	(1,088,018)	-	(1,088,018)	-	(1,088,018)	
As of December 31, 2012	<u>₩ 61,937,535</u>	<u>₩ 2,993,465,738</u>	<u>₩ (1,088,018)</u>	<u>₩ 211,566,946</u>	<u>₩ (53,812,774)</u>	<u>₩ 3,212,069,427</u>	<u>₩ 9,416,195</u>	<u>₩ 3,221,485,622</u>
As of January 1, 2013	₩ 61,937,535	₩ 2,993,465,738	₩ (1,088,018)	₩ 211,566,946	₩ (53,812,774)	₩ 3,212,069,427	₩ 9,416,195	₩ 3,221,485,622
Annual dividends	-	-	-	(49,541,073)	-	(49,541,072)	-	(49,541,073)
Comprehensive income:	-	-	747,169,845	7,838,739	755,008,584	(2,817,323)	752,191,261	
Net income	-	-	737,926,606	-	737,926,606	(2,894,720)	735,031,886	
Gain on valuation of AFS financial assets, net	-	-	-	634,035	634,035	2,050	636,085	
Cash flow hedging reserve	-	-	-	229,798	229,798	-	229,798	
Exchange differences on translating foreign operations	-	-	-	6,974,906	6,974,906	81,745	7,056,651	
Remeasurement of retirement benefit plan	-	-	9,243,239	-	9,243,239	(6,398)	9,236,841	
As of December 31, 2013	<u>₩ 61,937,535</u>	<u>₩ 2,993,465,738</u>	<u>₩ (1,088,018)</u>	<u>₩ 909,195,718</u>	<u>₩ (45,974,035)</u>	<u>₩ 3,917,536,938</u>	<u>₩ 6,598,872</u>	<u>₩ 3,924,135,810</u>

See accompanying notes to consolidated financial statements.

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013,
AND THE FOUR MONTHS ENDED DECEMBER 31, 2012

	2013	2012
	(Korean won in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash generated from operating activities	₩	₩
Net income	735,031,886	231,014,075
Adjustment		
Income tax expense	254,643,563	62,514,281
Interest income	(17,173,974)	(4,997,222)
Interest expense	62,074,671	24,403,520
Dividend income	(83,455)	-
Gain on foreign currency translation	(64,990,846)	(38,033,436)
Loss on foreign currency translation	61,876,926	39,408,915
Loss on disposal of available-for-sale securities	17,136	3,902
Loss on valuation of inventories	(699,182)	4,736,879
Loss on abandonment of inventories	2,459,366	822,817
Loss on disposal of trade receivable	569,578	807,919
Provision (reversal of allowance) for doubtful accounts	2,071,782	(2,053,664)
Other provision for doubtful accounts	-	1,603,133
Gain on disposal of property, plant and equipment	(1,937,637)	(614,706)
Loss on disposal of property, plant and equipment	13,800,109	4,014,335
Loss on property abandoned	114,557	1,999,564
Depreciation of property, plant and equipment	405,901,826	133,335,873
Depreciation of investment property	699,695	82,200
Amortization of intangible assets	6,387,846	1,748,436
Provision for other allowance	219,692	3,520
Sales damage expense	23,504,703	10,550,351
Employee benefits	739,873	657,823
Provision for severance benefits	45,910,562	12,532,710
	<u>796,106,791</u>	<u>253,527,150</u>
Changes in operating assets and liabilities:		
Increase (decrease) in trade receivables	(191,033,367)	152,383,308
Increase in other accounts receivables	(3,679,474)	(25,590,752)
Increase (decrease) in accrued income	(2,824,742)	54,164,181
Increase in advance payments	(20,930,614)	(3,995,993)
Increase in prepaid expenses	(24,993,157)	(7,122,872)
Increase (decrease) in deposits of acceptances and guarantees	(484,670)	26,702
Increase in inventories	(71,465,013)	(36,066,014)
Increase in leasehold deposits provided	(828,002)	(2,151,321)
Decrease in other current assets	1,771,164	2,321,616
Decrease in other non-current assets	2,300,402	5,523,228
Increase (decrease) in trade payables	11,080,815	(77,794,775)
Increase in other accounts payable	25,885,984	161,412,680
Decrease in accrued expenses	(3,449,554)	(107,211,930)
Increase (decrease) in advances from customers	25,832,978	(25,214,105)
Increase (decrease) in deposits provided	9,393,281	(26,360,281)
Decrease in unearned revenue	(12,106,755)	(4,521,325)
Decrease in other current liabilities	(1,204,552)	(2,843,360)
Decrease in long-term debts for employees	(1,179,919)	-

(Continued)

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013,
AND THE FOUR MONTHS ENDED DECEMBER 31, 2012

	<u>2013</u>	<u>2012</u>
	(Korean won in thousands)	
Payment of severance indemnities	₩ (10,569,686)	₩ (979,041)
Increase in plan assets	(22,527,275)	(49,402,537)
Increase in rental deposits	824,875	71,222
Decrease in foreign exchange forward liabilities	-	(266,078)
Compensation for sales damages	(22,075,697)	(10,753,113)
	<u>(312,262,979)</u>	<u>(4,370,561)</u>
Interest revenue received	18,061,687	6,908,764
Interest expense paid	(32,088,547)	(24,468,238)
Dividend income received	83,455	-
Income tax paid	(157,368,682)	(23,551,858)
Net cash provided by operating activities:	<u>1,047,563,611</u>	<u>439,059,332</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in short-term financial assets	(290,543,573)	54,805,341
Acquisition of AFS securities	(403,035)	(129,789)
Disposal of AFS securities	385,899	118,763
Acquisition of property, plant and equipment	(383,983,988)	(207,041,832)
Disposal of property, plant and equipment	33,408,555	7,409,866
Acquisition of intangible assets	(12,606,277)	(3,311,353)
Disposal of intangible assets	288,103	-
Net disposal of other financial assets	830,521	327,120
Net cash used in investing activities:	<u>₩ (652,623,795)</u>	<u>₩ (147,821,884)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	204,857,224	400,037,511
Proceeds from long-term borrowings	78,251,242	11,098,802
Issuance of debentures	55,323,555	-
Repayment of short-term borrowings	(493,685,894)	(779,323,565)
Dividends payment	(49,532,419)	-
Acquisition of treasury stock	-	(1,088,018)
Net cash used in financing activities:	<u>(204,786,291)</u>	<u>(369,275,270)</u>
NET INCREASE (DECREASE)		
IN CASH AND CASH EQUIVALENTS	190,153,524	(78,037,822)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	485,612,512	-
CASH AND CASH EQUIVALENTS ACQUIRED BY SPIN-OFF	-	569,258,142
CHANGES IN CASH AND CASH EQUIVALENTS DUE TO FOREIGN CURRENCY TRANSLATION	6,647,869	(5,607,808)
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>₩ 682,413,905</u>	<u>₩ 485,612,512</u>

(Concluded)

See accompanying notes to consolidated financial statements.

HANKOOK TIRE CO., LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013,
AND THE FOUR MONTHS ENDED DECEMBER 31, 2012

1. THE GROUP:

Hankook Tire Co., Ltd.(Parent Company in conformity with K-IFRS 1110, the “Company”) and its subsidiaries (the “Group”), was spun off on September 1, 2012, from Hankook Tire Worldwide Co., Ltd. (formerly Hankook Tire Co., Ltd.) to manufacture and sell tires, tubes and alloy wheels. On October 4, 2012, the Company offered its shares for public ownership and all of the Company’s shares were registered with the Korea Exchange. The Company’s headquarters are located at Kangnam-Gu, Seoul and two manufacturing factories are located in Daejeon and Kum-san.

During the current period, Hankook Tire Worldwide Co., Ltd., increased capital stock through public purchase by exchanging the common stock of the Company while assigning July 5, 2013, to date of payment. Part of the Company’s shareholders took part in capital increase and thus as of December 31, 2013 and 2012, the Company’s shareholders are as follows:

	December 31, 2013		December 31, 2012	
	Number of shares owned	Percentage of ownership (%)	Number of shares owned	Percentage of ownership (%)
Hankook Tire Worldwide Co., Ltd.	30,962,895	25.00	5,697,653	4.60
Yang Rai Cho	13,007,897	10.50	19,807,897	15.99
Hyun Bum Cho	2,561,241	2.07	8,789,241	7.10
Hyun Shick Cho	799,241	0.65	7,177,241	5.79
Others (*)	76,543,795	61.78	82,403,037	66.52
	123,875,069	100.00	123,875,069	100.00

(*) Including 22,388 shares in treasury stock as of December 31, 2013.

The Group's consolidated financial statements for annual shareholders’ meeting have been confirmed by the board of directors on March 6, 2014.

2. SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of preparing consolidated financial statements

The Group has prepared its consolidated financial statements in accordance with the Korean International Financial Reporting Standards (“K-IFRS”). Major accounting policies used for the preparation of the consolidated financial statements are stated below.

The accompanying consolidated financial statements have been prepared on the historical cost basis except for certain accounts and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

1) Newly adopted basic principles and the changes in accounting policy are as follows:

Amendments to K-IFRS 1019 Employee Benefits

The amendments to K-IFRS 1019 require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the ‘corridor approach’ permitted under the previous version of K-IFRS 1019 and accelerate the recognition of past service costs.

All actuarial gains and losses are recognized immediately through other comprehensive income (the option to recognize actuarial gains and losses in profit or loss has also been removed). Furthermore, the interest cost and expected return on plan assets used in the previous version of K-IFRS 1019 are replaced with a 'net interest' amount under K-IFRS 1019 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to K-IFRS 1019 also require the recognition of past service cost as an expense at the earlier date of (a) when the plan amendment or curtailment occurs and (b) when the Group recognizes related restructuring costs or termination benefits.

Amendments to K-IFRS 1107 *Financial Instruments: Disclosures*

The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities and require entities to disclose information about rights of offset and related arrangements (such as collateral agreements) for financial instruments under an enforceable master netting agreement or similar arrangement, irrespective of whether they would meet the offsetting criteria under K-IFRS 1032. As the Group has neither any offsetting financial instruments under K-IFRS 1032 nor any rights of offset or related arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

K-IFRS 1110 *Consolidated Financial Statements*

K-IFRS 1110 replaces the parts of K-IFRS 1027 Consolidated and Separate Financial Statements that deal with consolidated financial statements and K-IFRS 2012 Consolidation – Special Purpose Entities, and establishes a single basis for consolidation for all entities, including structured entities (the term from K-IFRS 2012, 'special purpose entities,' is no longer used). Under K-IFRS 1110, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The application of the enactments has no material impact on the Group's consolidated financial statements.

K-IFRS 1111 *Joint Arrangement*

K-IFRS 1111 deals with how a joint arrangement of which two or more parties have joint control should be classified either as a joint operation or a joint venture. The classification of joint arrangements under K-IFRS 1111 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e., joint venturers) have rights to the net assets of the arrangement. If the Group is a joint operator, the Group is to recognize assets, liabilities, revenues and expenses in relation to its interest in a joint operation and if the Group is a joint venture, the Group is to account for that investment using the equity method. The application of K-IFRS 1111 has not had any material impact on the Group's financial statements.

K-IFRS 1112 *Disclosure of Interest in Other Entities*

K-IFRS 1112 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. This standard requires an entity to disclose the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The application of the enactments has no material impact on the Group's consolidated financial statements.

K-IFRS 1113 *Fair Value Measurement*

K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosure about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. K-IFRS 1113 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured by taking into account the characteristics of the asset or liability that market participants would take when pricing the asset or liability at the measurement date.

A fair value measurement under K-IFRS 1113 requires an entity to determine the particular asset or liability that is subject of the measurement, the principal (or most advantageous) market for the asset or liability and the valuation technique(s) appropriate for the measurement. In addition, K-IFRS 1113 requires extensive disclosures about fair value measurements. The application of the enactments has no material impact on the Group's consolidated financial statements.

There are some other amendments made to K-IFRSs as part of the Annual Improvements such as the tax effect of distribution to holders of equity instruments (the amendments to K-IFRS 1032), which has not resulted in material effects on the Group's consolidated financial statements.

2) New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised K-IFRSs that have been issued but are not yet effective:

Amendments to K-IFRS 1032 *Financial Instruments: Presentation*

The amendments to K-IFRS 1032 clarify existing application issue relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement.'

Group's right to offset must not be conditional on the occurrence of future events but enforceable anytime during the contract periods, during the ordinary course of business with counterparty, a default of counterparty and master netting agreement or in some forms of non-recourse debt. The amendments to K-IFRS 1032 are effective for annual periods beginning on or after January 1, 2014.

Amendments to K-IFRS 1039 *Financial Instruments: Recognition and Measurement*

The amendments to K-IFRS 1039 allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty or entity acting in a similar capacity and certain conditions are met. The amendment to K-IFRS 1039 is effective for annual periods beginning on or after January 1, 2014.

Amendments to K-IFRS 1110, K-IFRS 1112 and K-IFRS 1027 *Investment Entities*

The amendments introduce an exception to the principle under K-IFRS 1110 that all subsidiaries shall be consolidated and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. In addition, consequential amendments have been made to K-IFRS 1112 and K-IFRS 1027 to introduce new disclosure requirements for investment entities. The investment entities amendments are effective for annual periods beginning on or after January 1, 2014.

K-IFRS 2121 *Levies*

K-IFRS 2121 defines a levy as a payment to a government for which an entity receives no specific goods or services. The interpretation requires that a liability is recognized when the obligating event occurs. The obligating event is the activity that triggers payment of the levy and is typically specified in the legislation that imposes the levy. The interpretation is effective for annual periods beginning on or after January 1, 2014.

The list above does not include some other amendments such as the Amendments to K-IFRS 1036 relating to recoverable amount disclosures for non-financial assets that are effective from January 1, 2014, with earlier application permitted. The application of the enactments has no material impact on the Group's consolidated financial statements.

(2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (and its subsidiaries). Control is achieved where the Company 1) has the power over the investee; 2) is exposed, or has rights, to variable returns from its involvement with the investee;

and 3) has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup transactions and related assets and liabilities, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(3) Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with K-IFRS 1012 Income Taxes and K-IFRS 1019 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with K-IFRS 1102 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held equity interest in the acquiree (if any); over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of a) the consideration transferred, b) the amount of any non-controlling interests in the acquiree, and c) the fair value of the acquirer's previously held interest in the acquiree (if any); the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another K-IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement, or K-IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

(4) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement,

which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with K-IFRS 1105 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Upon disposal of an associate or a joint venture that results in the Group losing significant influence over that associate or joint venture, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with K-IFRS 1039. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis we would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as reclassification adjustment) when it loses significant influence over that associate or joint venture.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. In addition, the Group applies K-IFRS 1105 to a portion of investment in an associate or a joint venture that meets the criteria to be classified as held for sale.

The requirements of K-IFRS 1039 Financial Instruments: Recognition and Measurement are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036 Impairment of Assets by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with K-IFRS 1036 to the extent that the recoverable amount of the investment subsequently increases.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(5) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed

sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the K-IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognized in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognize its share of the gains and losses until it resells those assets to a third party.

(6) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described at Note 2. (4).

(7) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a

joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with K-IFRS 1039 Financial Instruments: Recognition and Measurement, unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(8) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

1) Sale of goods

Revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods. Sales of goods that result in award credits for customers, under the Group's Maxi-Points Scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value – the amount for which the award credits could be sold separately. Such consideration is not recognized as revenue at the time of the initial sale transaction – but is deferred and recognized as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

2) Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. Depending on the nature of the transaction, the Group determines the stage of completion by reference to surveys of work performed, services performed to date as a percentage of total services to be performed, or the proportion that costs incurred to date bear to the estimated total costs of the transaction, as applicable

3) Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement.

4) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

5) Rental income

The Group's policy for recognition of revenue from operating leases is described in Note 2 (9) below.

(9) Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

1) The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets; in which case, they are capitalized in accordance with the Group's general policy (see Note 2 (11)) on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(10) Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Korean won (KRW), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the Group's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2, (23) below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KRW, using exchange rates prevailing at the end of the reporting period. Income and

expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period; in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests, as appropriate).

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences with respect to that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognized, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e., of associates or jointly controlled entities not involving a change in accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(11) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their 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.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(12) Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire assets are recognized as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as revenue over the periods that correspond to the costs that the Group intends to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

(13) Retirement benefit costs

Contributions to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit

recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are composed of service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), net interest expense (income) and remeasurement.

The Group presents the service cost and net interest expense (income) components in profit or loss, and the remeasurement component in other comprehensive income. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

(14) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if, and only if, the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purpose of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale.

3) Current and deferred tax for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(15) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment is directly attributable to their purchase or construction, which includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Subsequent costs are recognized in carrying amount of an asset or as an asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

The Group does not depreciate land. Depreciation expense is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Assets	Useful lives (Years)
Buildings	2–60
Structures	2–50
Machinery and equipment	2–18
Vehicles	2–19
Tools, furniture and fixtures	2–30

If each part of an item of property, plant and equipment has a cost that is significant in relation to the total cost of the item, it is depreciated separately.

The Group reviews the depreciation method the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(16) Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are reported at cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Group and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment property is depreciated based on the respective assets' estimated useful lives ranging from 30 to 40 years using the straight-line method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(17) Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Estimated useful lives as well as way of depreciation of intangible assets with finite useful lives are as follows. Also, the Group does not depreciate membership as it does not have limit on the expected useful lives.

Assets	Estimated useful lives (Years)	Depreciation method
Industrial property rights	5–10	Straight-line method
Other intangible assets	10	Straight-line method

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Expenditure arising from development (or from the development phase of an internal project) is recognized as an intangible asset if, only if, the development project is designed to produce new or substantially improved products, and the Group can demonstrate the technical and economic feasibility and measure reliably the resources attributable to the intangible asset during its development.

The amount initially recognized for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses on the same basis as intangible assets that are acquired separately.

3) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses on the same basis as intangible assets that are acquired separately.

4) Derecognition of intangible assets

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

(18) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount and the reduced amount is recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(19) Inventories

Inventories are stated at the lower of cost or net realized value, with cost being determined using the following methods:

	<u>Costing method</u>
Finished goods and work in process	Weighted-average method
Raw materials, merchandise and supplies	Moving-average method
Materials in transit	Specific identification method

Cost of inventories consists of the purchase price, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense (cost of sales) in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(20) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage is recognized in profit or loss as borrowing cost.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

At the end of each reporting period, the remaining provision balance is reviewed and assessed to determine if the current best estimate is being recognized. If the existence of an obligation to transfer economic benefit is no longer probable, the related provision is reversed during the period.

(21) Financial Instruments

Financial assets and financial liabilities are recognized when an entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss (FVTPL),' 'held-to-maturity (HTM) investments,' 'available-for-sale (AFS) financial assets' and 'loans and receivables.' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

1) Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

2) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or

- it is a derivative that is not designated and effective as a hedging instrument.
- A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
 - such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
 - the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
 - it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the other gains and losses line item in the consolidated statement of comprehensive income.

3) HTM investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as HTM investments. HTM investments are measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

4) Financial assets AFS

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

They are subsequently measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

5) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables.' Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

6) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that

more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of the Group as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

7) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial assets other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset, or it retains a residual interest and such an retained interest indicates that the transferor has neither transferred nor retained substantially all the risks and rewards of ownership and has retained control of the transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair value of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part that is no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair value of those parts.

(22) Financial liabilities and equity instruments

1) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of financial liability and an equity instrument.

2) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized when the proceeds are received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3) Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share premium. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible notes using the effective interest method.

4) Financial liabilities

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured at fair value. Transaction cost that are directly attributable to the issue of

financial liabilities are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to acquisition of financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

5) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Company of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and K-IFRS 1039 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

6) Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments including all fees and points paid or received (that form an integral part of the effective interest rate) and transaction costs and other premiums or discounts through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

7) Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instruments.

Financial guarantee contract liabilities are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with K-IFRS 1037 and
- the amount initially recognized, less cumulative amortization recognized in accordance with the K-IFRS 1018 Revenue

8) Derecognition of financial liabilities

The Group derecognize financial liabilities when the Group's obligation are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(23) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in such case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

1) Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are closely related to those of the host contracts and the contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realized or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

2) Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

4) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss in the same line of the consolidated statement of comprehensive income as the recognized hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity, and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship; the hedging instrument expires or is sold, terminated or exercised; or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(24) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of K-IFRS 1102 Share-based payment, leasing transactions that are within the scope of K-IFRS 1017 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in K-IFRS 1002 Inventories or value in use in K-IFRS 1036 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY:

In the application of the Group accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1) Valuation of Financial Instruments

As described in Note 36, the Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain type of financial instruments. Note 36 provides detailed information about key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

2) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

3) Defined Benefit Plan

The Group's defined benefit obligation is determined based on the actuarial valuation carried out at the end of each annual reporting period. Actuarial assumptions are the Group's best estimates of the variables in determining the cost of providing post-retirement benefits such as discount rates, rates of expected future salary increases and mortality rates. Significant estimation uncertainty is likely to persist in making such assumptions due to the long-term nature of post-retirement benefit plan.

4. RESTRICTED FINANCIAL ASSETS:

Details of restricted financial assets as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

Account	December 31, 2013	December 31, 2012	Descriptions
Short-term financial assets	₩ 33,770,715	₩ 33,204,100	Pledged Guarantee deposits for checking accounts
Long-term financial assets	15,500	15,500	
Total	₩ 33,786,215	₩ 33,219,600	

5. TRADE AND OTHER RECEIVABLES:

(1) Details of trade and other accounts receivable as of December 31, 2013 and 2012 are as follows (Korean won in thousands):

	December 31, 2013			December 31, 2012		
	Gross amount	Less: Allowance for bad debt	Net amount	Gross amount	Less: Allowance for bad debt	Net amount
Trade receivables	₩ 1,071,223,585	₩ (14,008,947)	₩ 1,057,214,638	₩ 1,065,746,567	₩ (13,563,358)	₩ 1,052,183,209
Other accounts receivable	125,400,186	(679,943)	124,720,243	118,904,373	(766,359)	118,138,014
Accrued income	9,061,168	-	9,061,168	14,084,153	-	14,084,153
Subtotal	1,205,684,939	(14,688,890)	1,190,996,049	1,198,735,093	(14,329,717)	1,184,405,376
Default note receivables	180	(180)	-	59,409	(59,409)	-
Subtotal	180	(180)	-	59,409	(59,409)	-
Total	₩ 1,205,685,119	₩ (14,689,070)	₩ 1,190,996,049	₩ 1,198,794,502	₩ (14,389,126)	₩ 1,184,405,376

(2) Credit risk and allowance for bad debt

Trade receivables and other accounts receivables above are classified as loan and receivables, and measured at amortized cost. The average credit period of sales of finished goods is 30~120days. The interest is not imposed for trade receivables or other accounts receivables, but imposed 24% for the rest of them after the termination of the contract.

The consolidated entity has an allowance for doubtful accounts. This is an unrecovered estimated amount that is determined on the basis of the analysis of the current financial status and the business partners' past experience of

default with respect to some receivables. For other receivables, allowance for doubtful accounts is set by a collective evaluation.

In the case of business with new customers, in order to evaluate the potential credit rating of customers, to determine the credit limit, the parent company uses an external credit evaluation system. In connection with the credit limit of the customer, the company has been informed immediately in the event of overdue financial institutions of the guarantor and representatives through a service CRETOP of Kedkorea. For trade receivables which are not impaired and passed the recovery date, singularity was not found under the outside credit evaluation system.

Trade receivables of the above, has elapsed recovery date of the end of the fiscal year under review, but there is no significant change in credit grade, is determined to be recoverable, including accrued interest on bonds of credit period elapsed minutes, allowance for doubtful accounts (such as aging analysis see below) claims that the parent company has not set up is included. The consolidated entity has received a credit enhancement real estate collateral, certificate of deposits pledge, guarantee bill (Credit Guarantee Fund), guarantee insurance (Seoul Guarantee Insurance), short-term export insurance by (Korea Trade Insurance Corporation) for these receivables, but does not hold the legal right to offset the debt of the consolidated entity for the counterparty.

1) Aging analyses of the trade and other accounts receivable that are overdue, but are not impaired as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013				Total
	3 months or less	3-6 months	6-12 months	Over 1 year	
Trade receivables	₩ 15,796,103	₩ 4,103	₩ -	₩ 113,379	₩ 15,913,585
Other accounts receivable	9,209	-	624	624	10,457
Accrued income	-	-	-	-	-
Default note receivables	-	-	-	-	-
Total	₩ 15,805,312	₩ 4,103	₩ 624	₩ 114,003	₩ 15,924,042

	December 31, 2012				Total
	3 months or less	3-6 months	6-12 months	Over 1 year	
Trade receivables	₩ 14,633,186	₩ -	₩ -	₩ 1,044,994	₩ 15,678,180
Other accounts receivable	-	-	-	-	-
Accrued income	-	-	-	-	-
Default note receivables	-	-	-	352,536	352,536
Total	₩ 14,633,186	₩ -	₩ -	₩ 1,397,530	₩ 16,030,716

2) Aging analyses of the trade and other accounts receivable that are impaired as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013				Total
	3 months or less	3-6 months	6-12 months	Over 1 year	
Trade receivables	₩ 160,698,917	₩ 57,742,764	₩ 5,641,360	₩ 27,840,229	₩ 251,923,270
Other accounts receivable	1,318,883	332,019	1,501,401	1,711,045	4,863,348
Accrued income	-	-	-	-	-
Defaulted note receivables	-	-	-	180	180
Total	₩ 162,017,800	₩ 58,074,783	₩ 7,142,761	₩ 29,551,454	₩ 256,786,798

	December 31, 2012				Total
	3 months or less	3-6 months	6-12 months	Over 1 year	
Trade receivables	₩ 283,393,425	₩ 23,407,165	₩ 6,509,238	₩ 9,387,203	₩ 322,697,031
Other accounts receivable	2,479,880	1,525,522	631,299	3,638,259	8,274,960
Accrued income	-	-	-	-	-
Defaulted note receivables	-	-	13,930	45,479	59,409
Total	₩ 285,873,305	₩ 24,932,687	₩ 7,154,467	₩ 13,070,941	₩ 331,031,400

3) Changes in allowance for trade and other accounts receivable for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	December 31, 2013			
	Trade receivables	Other accounts receivable	Default note receivables	Total
Beginning balance	₩ 13,563,358	₩ 766,359	₩ 59,409	₩ 14,389,126
Impairment loss	2,071,904	224,058	(2,536)	2,293,426
Write-offs	(355,811)	(93,929)	(56,693)	(506,433)
Reversal of allowance for bad debts	(5,097)	(216,546)	-	(221,643)
Foreign currency translation	(1,265,407)	-	-	(1,265,407)
Ending balance	₩ 14,008,947	₩ 679,942	₩ 180	₩ 14,689,069

	December 31, 2012			
	Trade receivables	Other accounts receivable	Default note receivables	Total
Acquisition by spin-off	₩ 18,565,020	₩ 799,902	₩ 64,409	₩ 19,429,331
Write-offs		11,348		11,348
Reversal of allowance for bad debts	(2,003,773)	(44,891)	(5,000)	(2,053,664)
Foreign currency translation	(2,997,889)	-	-	(2,997,889)
Ending balance	₩ 13,563,358	₩ 766,359	₩ 59,409	₩ 14,389,126

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

6. FINANCIAL ASSETS AT FVTPL AND AFS SECURITIES:

Details of financial asset at FVTPL and AFS securities as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		December 31, 2012	
Equity instrument:				
Listed securities	₩	2,075,206	₩	1,771,903
Unlisted securities		1,004,555		1,004,555
Total	₩	3,079,761	₩	2,776,458

7. OTHER FINANCIAL ASSETS:

Details of other financial assets as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Loans	₩ 589,803	₩ 4,495,299	₩ 474,467	₩ 4,465,433
Deposits provided	1,701,568	10,549,067	1,244,423	9,751,420
Total	₩ 2,291,371	₩ 15,044,366	₩ 1,718,890	₩ 14,216,853

8. INVENTORIES:

Details of inventories as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013				
	Acquisition cost	Inventory valuation	Inventory valuation reserve	Foreign currency translation variance	Loss on valuation (reversal of reserve)
Finished goods	₩ 697,215,688	₩ 693,112,635	₩ 4,103,053	₩ 525,637	₩ (2,092,922)
Work in process	40,581,928	40,581,928	-	-	-
Raw materials	311,748,989	306,066,272	5,682,717	-	1,393,740
Supplies	25,003,980	24,624,796	379,184	-	-
Materials in transit	408,078,984	408,078,984	-	-	-
Total	<u>₩1,482,629,569</u>	<u>₩1,472,464,615</u>	<u>₩ 10,164,954</u>	<u>₩ 525,637</u>	<u>₩ (699,182)</u>

	December 31, 2012				
	Acquisition cost	Inventory valuation	Inventory valuation reserve	Foreign currency translation variance	Loss on valuation (reversal of reserve)
Finished goods	₩ 559,735,227	₩ 554,064,889	₩ 5,670,338	₩ 87,447	₩ 1,883,981
Work in process	44,954,896	44,954,896	-	-	-
Raw materials	340,023,412	335,734,435	4,288,977	-	2,852,898
Supplies	23,879,965	23,500,781	379,184	-	-
Materials in transit	433,468,115	433,468,115	-	-	-
Total	<u>₩1,402,061,615</u>	<u>₩1,391,723,116</u>	<u>₩ 10,338,499</u>	<u>₩ 87,447</u>	<u>₩ 4,736,879</u>

9. OTHER ASSETS:

Details of other assets as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		December 31, 2012	
	Current	Non-current	Current	Non-current
Advance payments	₩ 42,933,416	₩ -	₩ 22,994,351	₩ -
Prepaid expenses	77,776,684	-	53,454,191	-
Others	909,419	195,310	2,675,247	2,461,283
Total	<u>₩ 121,619,519</u>	<u>₩ 195,310</u>	<u>₩ 79,123,789</u>	<u>₩ 2,461,283</u>

10. SUBSIDIARIES:

(1) Details of subsidiaries as of December 31, 2013 and 2012, are as follows:

Subsidiaries	Primary business	Location	December 31, 2013		December 31, 2012	
			Percentage of ownership (%)	Reporting date	Percentage of ownership (%)	Reporting date
Daehwa Engineering & Machinery Co., Ltd.	Manufacture of tire and tube manufacturing machine	Korea	95.00	Dec.31	95.00	Dec.31
Hankook Tire America Corp.	Sales of tires	USA	100.00	Dec.31	100.00	Dec.31
Hankook Tyre U.K. Ltd.	Sales of tires	United Kingdom	100.00	Dec.31	100.00	Dec.31
Jiangsu Hankook Tire Co., Ltd.	Manufacture and sales of tires	China	100.00	Dec.31	100.00	Dec.31
Hankook Tire China Co., Ltd.	Manufacture and sales of tires	China	100.00	Dec.31	100.00	Dec.31
Shanghai Hankook Tire Sales Co., Ltd	Sales of tires	China	100.00	Dec.31	100.00	Dec.31
Hankook Tire Netherlands B.V.	Sales of tires	Netherlands	100.00	Dec.31	100.00	Dec.31
Hankook Tire Japan Corp.	Sales of tires	Japan	100.00	Dec.31	100.00	Dec.31
Hankook Tire Canada Corp.	Sales of tires	Canada	100.00	Dec.31	100.00	Dec.31
Hankook Reifen Deutschland GmbH	Sales of tires	Germany	100.00	Dec.31	100.00	Dec.31
Hankook Tire France SARL	Sales of tires	France	100.00	Dec.31	100.00	Dec.31
Hankook Espana S.A.	Sales of tires	Spain	100.00	Dec.31	100.00	Dec.31
Hankook Tyre Australia Pty., Ltd.	Sales of tires	Australia	100.00	Dec.31	100.00	Dec.31
Hanyang Tire Sales Co., Ltd.	Sales of tires	Korea	100.00	Dec.31	100.00	Dec.31
Hankook Tire Europe Holdings B.V.	Building European governance	Netherlands	100.00	Dec.31	100.00	Dec.31
Hankook Tire Hungery Ltd.	Manufacture and sales of tires	Hungery	100.00	Dec.31	100.00	Dec.31
Hankook Tire Budapest Kereskedelmi Kft	Sales of tires	Hungery	100.00	Dec.31	100.00	Dec.31
Hankook Tire Italia S.R.L	Sales of tires	Italy	100.00	Dec.31	100.00	Dec.31
Hankook Tire Europe GmbH	Support to sales of tires	Germany	100.00	Dec.31	100.00	Dec.31
Hankook Tire Rus LLC	Sales of tires	Russia	100.00	Dec.31	100.00	Dec.31
Hankook Tire DE Mexico, S.A. DE C.V.	Sales of tires	Mexico	100.00	Dec.31	100.00	Dec.31
Chongqing Hankooktire Co., Ltd.	Manufacture and sales of tires	China	100.00	Dec.31	100.00	Dec.31
PT Hankook Tire Indonesia	Manufacture and sales of tires	Indonesia	99.99	Dec.31	99.99	Dec.31
MKT Holdings Co., Ltd.	Manufacture and sales of tire mold	Korea	50.10	Dec.31	50.10	Dec.31
MK Mold (Jiaxing) Co., Ltd.	Manufacture and sales of tire mold	China	50.10	Dec.31	50.10	Dec.31
MK Technology Corp.	Manufacture and sales of tire mold	Korea	50.10	Dec.31	50.10	Dec.31
Hankook Tire Budapest Kereskedelmi Kft.,Sp.zo.o. Polish Branch	Sales of tires	Poland	100.00	Dec.31	100.00	Dec.31
Hankook Tire Singapore PTE., Ltd.	Trade and consulting	Singapore	100.00	Dec.31	100.00	Dec.31
Hankook Tire Malaysia SDN.BHD.	Sales of tires	Malaysia	100.00	Dec.31	100.00	Dec.31
Hankook Tire Sweden AB	Sales of tires	Sweden	100.00	Dec.31	-	-
Beijing Jielun Trading Company Co., Ltd.	Sales of tires	China	100.00	Dec.31	-	-
Hankook Lastikleri A.S.	Sales of tires	Turkey	100.00	Dec.31	-	-
Hankook Tire Polska Sp. z o.o.	Sales of tires	Poland	100.00	Dec.31	-	-
Hankook Tire Thailand Co., Ltd.	Sales of tires	Thailand	99.99	Dec.31	-	-

(2) Details of subsidiaries' financial statuses as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

Subsidiaries	December 31, 2013					
	Assets		Liabilities		Sales	Net income
Hankook Tire America Corp.	₩	551,975,450	₩	415,639,516	₩1,250,716,777	₩12,726,863
Hankook Tire Canada Corp.		63,478,362		51,554,340	143,355,274	1,548,574
Hankook Tire Europe Holdings B.V.		245,825,109		1,273	-	(42,684)
Hankook Tire Netherlands B.V.		88,914,200		75,501,669	226,646,449	1,649,569
Hankook Tyre U.K. Ltd.		158,502,320		148,590,303	214,955,515	1,675,125
Hankook Reifen Deutschland GmbH		224,801,693		203,475,563	471,659,634	2,523,378
Hankook Tire France SARL		48,390,145		42,654,527	112,743,997	615,916
Hankook Tire Italia S.R.L.		87,106,675		80,415,005	148,221,430	1,855,784
Hankook Espana S.A.		62,361,904		56,833,604	131,212,064	1,118,669
Hankook Tire Europe GmbH		44,086,975		40,959,487	17,992,342	591,681
Hankook Tire Hungary Ltd.		988,264,148		504,878,304	824,328,076	143,710,035
Hankook Tire Budapest Kereskedelmi Kft		54,430,704		47,675,440	122,492,264	1,602,039
Hankook Tire Rus LLC		1,684,933		1,054,271	6,237,671	(42,348)
Hankook Tire Japan Corp.		35,920,464		33,772,503	77,649,460	(798,796)
Hankook Tyre Australia Pty., Ltd.		41,900,771		39,078,287	84,885,890	326,598
Hankook Tire China Co., Ltd.		1,391,542,489		599,483,704	933,778,609	150,323,123
Jiangsu Hankook Tire Co., Ltd.		899,999,785		453,070,499	842,315,967	70,905,866
Shanghai Hankook Tire Sales Co., Ltd.		448,523,681		469,562,275	1,252,574,603	3,513,329
Daehwa Engineering & Machinery Co., Ltd		70,091,183		33,390,721	82,152,446	1,877,649
Hankook Tire DE Mexico, S.A. DE C.V.		30,097,803		30,378,226	69,259,622	(1,087,593)
Chongqing Hankooktire Co., Ltd.		380,306,161		314,062,980	152,873,412	(22,669,939)
Hanyang Tire Sales Co., Ltd.		1,467,814		2,131,038	1,510,675	(43,409)
PT Hankook Tire Indonesia		418,682,722		296,126,983	212,522,743	1,926,583
MKT Holdings Co., Ltd.		65,752,956		35,129,097	-	9,287,208
MK Mold (Jiaxing) Co., Ltd.		22,900,133		15,675,430	13,569,097	(2,065,349)
Hankook Tire Budapest Kereskedelmi Kft., Sp.zo.o. Polish Branch		1,133,851		20,779	27,778,692	296,520
MK Technology Corp.		45,556,681		9,593,264	44,786,245	9,377,514
Hankook Tire Singapore PTE., Ltd.		136,144,824		134,623,563	1,516,328	551,537
Hankook Tire Malaysia SDN.BHD.		3,640,980		3,355,999	8,136,725	(114,413)
Hankook Tire Sweden AB		643,343		627,412	2,258,167	7,883
Beijing Jielun Trading Company Co., Ltd.		1,024,855		408,966	1,615,051	(82,325)
Hankook Lastikleri A.S.		617,598		598,251	1,835,571	(6,399)
Hankook Tire Polska Sp. z o.o.		29,673,907		28,939,617	31,544,170	722,770
Hankook Tire Thailand Co., Ltd.		4,659,133		1,300,931	799,777	53,075

Subsidiaries	December 31, 2012			
	Assets	Liabilities	Sales	Net income
Hankook Tire America Corp.	₩ 458,587,122	₩ 332,658,588	₩ 414,222,066	₩ 5,673,580
Hankook Tire Canada Corp.	52,444,068	41,061,659	46,679,752	75,984
Hankook Tire Europe Holdings B.V.	239,116,419	3,191	-	24,694
Hankook Tire Netherlands B.V.	88,844,705	77,407,824	69,655,830	240,490
Hankook Tyre U.K. Ltd.	104,998,937	96,836,424	63,163,854	92,772
Hankook Reifen Deutschland GmbH	222,529,321	204,247,595	129,241,050	(614,803)
Hankook Tire France SARL	36,228,390	31,250,428	37,264,656	655,314
Hankook Tire Italia S.R.L.	84,961,735	80,262,031	49,925,050	108,666
Hankook Espana S.A.	50,809,103	46,522,614	33,095,618	(10,359)
Hankook Tire Europe GmbH	30,779,769	28,314,682	7,590,719	57,056
Hankook Tire Hungary Ltd.	960,829,072	624,211,375	249,227,021	42,309,403
Hankook Tire Budapest Kereskedelmi Kft	29,262,442	24,154,441	34,967,944	242,234
Hankook Tire Rus LLC	1,069,265	333,994	1,222,009	(891,673)
Hankook Tire Japan Corp.	40,952,676	38,104,580	40,060,900	761,557
Hankook Tyre Australia Pty., Ltd.	46,352,740	43,357,698	26,534,443	313,591
Hankook Tire China Co., Ltd.	1,321,436,408	690,835,307	322,983,322	60,486,545
Jiangsu Hankook Tire Co., Ltd.	833,929,947	461,103,777	281,909,298	18,864,976
Shanghai Hankook Tire Sales Co., Ltd.	334,141,697	358,303,843	395,940,812	3,418,368
Daehwa Engineering & Machinery Co., Ltd	61,822,279	27,287,142	41,920,193	502,790
Hankook Tire DE Mexico, S.A. DE C.V.	23,316,080	22,557,751	26,904,375	(30,826)
Chongqing Hankooktire Co., Ltd.	299,859,810	212,579,349	6,284,293	(9,802,852)
Hanyang Tire Sales Co., Ltd.	1,553,082	2,172,896	723,382	63,611
PT Hankook Tire Indonesia	395,407,340	272,901,154	7,097,160	(6,647,790)
MKT Holdings Co., Ltd.	66,220,685	44,884,034	-	(960,789)
MK Mold (Jiaxing) Co., Ltd.	27,060,425	17,934,218	5,129,796	912,799
Hankook Tire Budapest Kereskedelmi Kft., Sp. zo. o. Polish Branch	15,879,237	15,073,402	9,742,743	61,700
MK Technology Corp.	54,149,824	15,696,385	18,782,626	2,625,816
Hankook Tire Singapore PTE., Ltd.	57,693,929	57,010,700	353,252	98,214
Hankook Tire Malaysia SDN.BHD.	428,440	-	-	-

(3) During the period, the contents of the summary cash flow for each subsidiary are as follows (Korean won in thousand):

Subsidiaries	Operating Activities	Investing Activities	Financing Activities	Beginning	Foreign Currency Translation	Ending
Hankook Tire America Corp.	₩ (70,080,241)	₩ (5,982,477)	₩82,606,785	₩8,700,924	₩ (365,839)	₩ 14,879,152
Hankook Tire Canada Corp.	9,288,300	(118,489)	-	9,652,147	(572,689)	18,249,269
Hankook Tire Europe Holdings B.V.	(44,688)	(42,073)	-	185,440	5,076	103,755
Hankook Tire Netherlands B.V.	(225,175)	3,765,668	-	2,458,179	(172,280)	5,826,392
Hankook Tyre U.K. Ltd.	11,561,626	(1,002,085)	(8,774,270)	3,619,588	(17,752)	5,387,107
Hankook Reifen Deutschland GmbH	(4,932,769)	(1,290,312)	-	33,343,080	930,163	28,050,162
Hankook Tire France SARL	3,812,441	(2,812,865)	-	563,633	17,775	1,580,984
Hankook Tire Italia S.R.L	16,512,786	(6,816,826)	(5,574,819)	3,182,731	97,546	7,401,418
Hankook Espana S.A.	996,079	54,597	-	718,039	22,231	1,790,946
Hankook Tire Europe GmbH	3,030,551	(7,323,459)	10,555,879	13,109,897	381,902	19,754,770
Hankook Tire Hungary Ltd.	267,789,689	(93,266,971)	(137,629,136)	1,769,903	(692,281)	37,971,204
Hankook Tire Budapest Kereskedelmi Kft	11,380,643	1,543,567	-	1,876,383	24,059	14,824,652
Hankook Tire Rus LLC	(3,982)	(377,769)	436,307	308,627	(38,685)	324,498
Hankook Tire Japan Corp.	(4,031,339)	4,381	3,370,230	9,187,988	(1,719,126)	6,812,134
Hankook Tyre Australia Pty., Ltd.	2,985,821	(721,375)	-	788,198	(378,721)	2,673,923
Hankook Tire China Co., Ltd.	96,459,769	(54,977,142)	(35,966,969)	17,452,522	8,899,855	31,868,035
Jiangsu Hankook Tire Co., Ltd.	59,746,737	(28,098,043)	(16,660,852)	12,279,009	(1,647,076)	25,619,775
Shanghai Hankook Tire Sales Co., Ltd.	47,062,072	(33,369,763)	-	14,609,834	(166,788)	28,135,355
Daehwa Engineering & Machinery Co., Ltd	(872,146)	(1,577,239)	-	2,559,016	-	109,631
Hankook Tire DE Mexico, S.A. DE C.V.	629,197	(620,712)	1,717,800	472,850	(117,866)	2,081,269
Chongqing Hankooktire Co., Ltd.	18,738,301	(26,727,380)	6,133,195	5,340,654	3,073,503	6,558,273
Hanyang Tire Sales Co., Ltd.	5,604	(17,077)	-	37,973	-	26,500
PT Hankook Tire Indonesia	12,857,784	(39,965,296)	4,380,160	25,993,065	328,855	3,594,568
MKT Holdings Co., Ltd.	9,202,835	-	(9,621,403)	1,474,983	-	1,056,415
MK Mold (Jiaxing) Co., Ltd.	4,632,721	(435,124)	(3,680,437)	695,056	(2,708)	1,209,508
Hankook Tire Budapest Kereskedelmi Kft.,Sp.zo.o. Polish Branch	(2,069,532)	2,917,772	-	61,841	11,863	921,944
MK Technology Corp.	13,801,505	(1,279,274)	(17,330,000)	14,099,338	1,477	9,293,046
Hankook Tire Singapore PTE., Ltd.	(62,146,079)	(4)	71,111,279	240,420	(331,344)	8,874,272
Hankook Tire Malaysia SDN.BHD.	352,831	(116,547)	284,825	428,440	(341,775)	607,774
Hankook Tire Sweden AB	(139,775)	(26,876)	428,553	-	(5,650)	256,252
Beijing Jielun Trading Company Co., Ltd.	187,290	(452,617)	712,400	-	(10,066)	437,007
Hankook Lastikleri A.S.	106,287	(253,005)	537,056	-	(147,377)	242,961
Hankook Tire Polska Sp. z o.o.	10,198,147	(107,591)	1,732	-	111,738	10,204,026
Hankook Tire Thailand Co., Ltd.	50,194	(89,668)	3,677,100	-	(362,742)	3,274,884
Total	456,843,484	(299,582,074)	(49,284,585)	185,209,758	6,815,278	300,001,861

11. PROPERTY, PLANT AND EQUIPMENT:

(1) Details of the carrying value of property, plant and equipment as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying value
Land	₩ 275,439,565	₩ -	₩ -	₩ 275,439,565
Buildings	1,370,538,206	(295,627,081)	-	1,074,911,125
Structures	101,845,814	(40,795,626)	-	61,050,188
Machinery and equipment	3,651,136,646	(2,087,899,250)	-	1,563,237,396
Vehicles	47,335,544	(29,333,422)	-	18,002,122
Tools, furniture and fixtures	941,818,396	(600,015,837)	(1,671,865)	340,130,694
Machinery in transit	13,880,532	-	-	13,880,532
Construction in progress	151,326,278	-	-	151,326,278
Total	₩ 6,553,320,981	₩ (3,053,671,216)	₩ (1,671,865)	₩ 3,497,977,900

	December 31, 2012			
	Acquisition cost	Accumulated depreciation	Accumulated impairment	Carrying value
Land	₩ 273,593,265	₩ -	₩ -	₩ 273,593,265
Buildings	1,326,975,271	(266,605,086)	-	1,060,370,185
Structures	91,406,257	(35,241,341)	-	56,164,916
Machinery and equipment	3,340,866,493	(1,807,691,593)	-	1,533,174,900
Vehicles	42,876,229	(28,469,977)	-	14,406,252
Tools, furniture and fixtures	891,646,427	(576,607,220)	(1,594,797)	313,444,410
Machinery in transit	95,817,916	-	-	95,817,916
Construction in progress	224,618,818	-	-	224,618,818
Total	₩ 6,287,800,676	₩ (2,714,615,217)	₩ (1,594,797)	₩ 3,571,590,662

(2) Changes in property, plant and equipment for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013						
	Beginning balance	Acquisition	Disposal	Depreciation	Others	Foreign currency translation	Ending balance
Land	₩ 273,593,265	₩ -	₩ -	₩ -	₩ 1,715,960	₩ 130,340	₩ 275,439,565
Buildings	1,060,370,185	6,648,043	89,324	36,281,943	39,913,545	4,350,618	1,074,911,124
Structures	56,164,916	2,723,478	-	5,414,417	7,325,697	250,514	61,050,188
Machinery and equipment	1,533,174,900	29,826,699	19,543,486	293,712,410	305,158,319	8,333,374	1,563,237,396
Vehicles	14,406,252	765,804	709,727	3,953,515	7,519,021	(25,713)	18,002,122
Tools, furniture and fixtures	313,444,410	48,910,199	25,043,045	66,539,541	68,959,085	399,587	340,130,695
Machinery in transit	95,817,916	27,499,259	-	-	(110,957,454)	1,520,811	13,880,532
Construction in progress	224,618,818	286,042,980	-	-	(361,107,854)	1,772,334	151,326,278
Total	₩3,571,590,662	₩402,416,462	₩45,385,582	₩405,901,826	₩(41,473,681)	₩ 16,731,865	₩3,497,977,900

2012

	Acquisition by spin-off	Acquisition	Disposal	Depreciation	Others	Foreign currency translation	Ending balance
Land	₩ 265,841,860	₩ -	₩ -	₩ -	₩ 8,218,501	₩ (467,096)	₩ 273,593,265
Buildings	981,898,568	1,613,214	183	10,969,746	109,086,479	(21,258,147)	1,060,370,185
Structures	58,961,598	5,500	1	1,712,052	65,801	(1,155,930)	56,164,916
Machinery and equipment	1,423,225,260	817,523	6,372,655	92,402,062	247,459,323	(39,552,489)	1,533,174,900
Vehicles	13,014,608	1,034,674	174,297	1,156,734	1,925,842	(237,841)	14,406,252
Tools, furniture and fixtures	303,518,715	22,523,859	6,261,923	27,095,279	26,307,039	(5,548,001)	313,444,410
Machinery in transit	187,318,184	48,055,796	-	-	(133,191,068)	(6,364,996)	95,817,916
Construction in progress	346,399,366	132,991,266	-	-	(248,003,516)	(6,768,298)	224,618,818
Total	₩ 3,580,178,159	₩ 207,041,832	₩ 12,809,059	₩ 133,335,873	₩ 11,868,401	₩ (81,352,798)	₩ 3,571,590,662

(3) Pledged assets as collateral

As of December 31, 2013, a portion of the Group's property, plant and equipment (land, buildings and machinery) is pledged as collateral for its credit limit and others (see Note 37). The Group has subscribed to property and comprehensive insurance for its buildings (see Note 37).

12. INVESTMENT PROPERTY:

(1) Details of the carrying value of investment property as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		
	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩ 82,421,775	₩ -	₩ 82,421,775
Buildings	38,592,233	(12,835,367)	25,756,866
Total	₩ 121,014,008	₩ (12,835,367)	₩ 108,178,641

	December 31, 2012		
	Acquisition cost	Accumulated depreciation	Carrying value
Land	₩ 39,216,992	₩ -	₩ 39,216,992
Buildings	15,253,957	(4,357,608)	10,896,349
Total	₩ 54,470,949	₩ (4,357,608)	₩ 50,113,341

(2) Changes in investment property for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013					Ending balance
	Beginning balance	Acquisition	Disposal	Depreciation	Others	
Land	₩39,216,993	₩ -	₩ -	₩ -	₩43,204,782	₩82,421,775
Buildings	10,896,348	-	-	(699,695)	15,560,213	25,756,866
Total	₩50,113,341	₩ -	₩ -	₩ (699,695)	₩58,764,995	₩108,178,641

2012

	Acquisition by spin-off	Acquisition	Disposal	Depreciation	Others	Ending balance
Land	₩ 43,978,010	₩ -	₩ -	₩ -	₩ (4,761,018)	₩ 39,216,992
Buildings	17,178,043	-	-	(82,200)	(6,199,494)	10,896,349
Total	₩ 61,156,053	₩ -	₩ -	₩ (82,200)	₩ (10,960,512)	₩ 50,113,341

(3) Earnings and operating expenses from investment property for the year ended December 31, 2013, are ₩3,367,151 thousand and ₩2,204,454 thousand, respectively.

(4) As of December 31, 2013, carrying amount of investment property is ₩108,178,641 thousand and the fair value is ₩115,119,961 thousand.

13. INTANGIBLE ASSETS:

(1) Details of carrying value of intangible assets as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		
	Acquisition cost	Accumulated Amortization	Carrying value
Industrial rights	₩ 8,253,460	₩ (6,561,064)	₩ 1,692,396
Other intangible assets	114,350,902	(18,600,312)	95,750,590
Goodwill	27,393,123	-	27,393,123
Total	₩ 149,997,485	₩ (25,161,376)	₩ 124,836,109

	December 31, 2012		
	Acquisition cost	Accumulated Amortization	Carrying value
Industrial rights	₩ 8,287,829	₩ (6,100,097)	₩ 2,187,732
Other intangible assets	104,459,122	(17,424,151)	87,034,971
Goodwill	27,393,123	-	27,393,123
Total	₩ 140,140,074	₩ (23,524,248)	₩ 116,615,826

(2) Changes in intangible assets for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013					
	Beginning balance	Acquisition	Disposal	Amortization	Others	Ending balance
Industrial rights	₩ 2,187,732	₩ 312,482	₩(277,210)	₩ (916,768)	₩ 386,160	₩ 1,692,396
Other intangible assets	87,034,971	12,299,375	(10,893)	(5,471,079)	1,898,216	95,750,590
Goodwill	27,393,123	-	-	-	-	27,393,123
Total	₩116,615,826	₩12,611,857	₩(288,103)	₩(6,387,847)	₩ 2,284,376	₩ 124,836,109

	2012					
	Acquisition by spin-off	Acquisition	Disposal	Amortization	Others	Ending balance
Industrial rights	₩ 2,199,473	₩ 958	₩ -	₩ (323,883)	₩ 311,184	₩ 2,187,732
Other intangible assets	88,671,728	3,310,395	-	(1,424,553)	(3,522,599)	87,034,971
Goodwill	28,479,872	-	-	-	(1,086,749)	27,393,123
Total	₩119,351,073	₩ 3,311,353	₩ -	₩ (1,748,436)	₩ (4,298,164)	₩ 116,615,826

- (3) The recoverable amount of cash-generating unit (“CGU”) of the MK Technology Corp. was measured at its value in use. As a result of assessment, the Group did not recognize impairment of goodwill. Main assumptions are as follows.

	<u>Rate</u>
Discount rate (weighted-average capital cost)	12.3%
Permanent growth rate	0.0%

14. TRADE AND OTHER ACCOUNTS PAYABLE:

Details of trade and other accounts payable as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
Trade payables	₩	459,255,274	₩	389,674,803
Other accounts payable		327,450,108		469,189,933
Accrued expenses		138,269,683		80,751,635
		8,653		-
Total	₩	<u>924,983,718</u>	₩	<u>939,616,371</u>

15. BORROWINGS:

(1) Details of borrowings as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Short-term borrowings	₩ 1,672,518,879	₩ -	₩ 1,858,478,772	₩ -
Long-term borrowings	83,047,183	619,155,188	74,813,908	734,455,576
Debentures	-	203,733,365	-	149,481,404
Total	<u>₩ 1,755,566,062</u>	<u>₩ 822,888,553</u>	<u>₩ 1,933,292,680</u>	<u>₩ 883,936,980</u>

(2) Details of short-term borrowings as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	<u>Lender</u>	Annual interest rate	<u>December 31, 2013</u>	<u>December 31, 2012</u>
		(%)		
General loans	Bank of China and others	0.52–6.60	₩ 713,080,651	₩ 830,386,375
Bank overdrafts	UniCredit and others	LIBOR (1M) + 1.55	2,472,714	93,651,766
Transfer of trade receivables ^(*)	Woori Bank and others	0.2–3.92	656,779,423	613,838,571
Usance	Kookmin Bank and others	1.61–2.1	188,128,327	276,656,047
Trade financing	Shinhan Bank and others	1.73–1.87	112,057,764	43,946,013
	Total		<u>₩ 1,672,518,879</u>	<u>₩ 1,858,478,772</u>

(*) As financial liabilities recognized with respect to transfer of trade receivables that cannot meet derecognition requirements, these are secured by the Group's trade receivables.

(3) Details of long-term borrowings as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

December 31, 2013				
	Lender	Annual interest rate (%)	Current	Non-current
Long-term borrowings in local currency	Woori Bank and others	2.00–2.57	₩ -	₩ 800,000
Long-term borrowings in foreign currency	Korea Development Bank and others	1.6–7.36	83,047,183	618,355,188
	Total		₩ 83,047,183	₩ 619,155,188

December 31, 2012				
	Lender	Annual interest rate (%)	Current	Non-current
Long-term borrowings in local currency	Woori Bank and others	2.00–6.53	₩ -	₩ 45,271,403
Long-term borrowings in foreign currency	Korea Development Bank and others	1.95–4.85	74,813,908	689,184,173
	Total		₩ 74,813,908	₩ 734,455,576

(4) Details of debentures as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

December 31, 2013					
Classification	Issue dates	Maturity dates	Annual interest rate (%)	Current	Non-current
The 81-1 st debentures payable	2012.2.21	2015.2.21	3.84	₩ -	₩ 80,000,000
The 81-2 nd debentures payable	2012.2.21	2017.2.21	4.06	-	70,000,000
Discount on debentures				-	(332,504)
	2013.4.22	2016.4.22	5.01	-	54,065,869
	Total			₩	₩ 203,733,365

December 31, 2012					
Classification	Issue dates	Maturity dates	Annual interest rate (%)	Current	Non-current
The 81-1 st debentures payable	2012.2.21	2015.2.21	3.84	₩ -	₩ 80,000,000
The 81-2 nd debentures payable	2012.2.21	2017.2.21	4.06	-	70,000,000
Discount on debentures				-	(518,596)
	Total			₩	₩ 149,481,404

16. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

December 31, 2013		
	Current	Non-current
Foreign exchange forward liabilities	₩ -	₩ -
Rental deposits	-	4,676,638
Total	₩ -	4,676,638

	December 31, 2012	
	Current	Non-current
Foreign exchange forward liabilities	₩ 303,164	₩ -
Rental deposits	-	3,851,762
Total	₩ 303,164	₩ 3,851,762

17. RETIREMENT BENEFIT PLAN:

The most recent actuarial assessment of plan assets and defined benefit obligation was performed based on December 31, 2013, by Mirae Asset Securities Co., Ltd. Present value of the defined benefit obligation, its related current service cost and past service cost have been measured by the projected unit credit method.

- (1) The principal actuarial assumptions used in retirement benefit obligation assessment as of December 31, 2013, are as follows (Unit: %):

	December 31, 2013
Discount rate	3.79–4.92
Expected rate of salary increase	6.17–6.89

- (2) As of December 31, 2013 and 2012, amounts recognized in the consolidated statements of financial position related to retirement benefit obligation are as follows (Korean won in thousands):

	December 31, 2013	December 31, 2012
Present value of defined benefit obligation	₩ 222,958,671	₩ 194,129,149
Fair value of plan assets	(206,099,231)	(177,905,286)
Net retirement benefit liabilities	₩ 16,859,440	₩ 16,223,863

- (3) Changes in present value of net defined benefit liabilities for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013		
	Present value of defined benefit obligation	Plan assets	Total
Beginning balance	₩ 194,129,149	₩ (177,905,286)	₩ 16,223,863
Current service cost	44,644,668	-	44,644,668
Interest expense (income)	8,778,227	(7,512,333)	1,265,894
Subtotal	247,552,044	(185,417,619)	62,134,425
Remeasurement	(14,023,687)	1,845,663	(12,178,024)
Company contributions	-	(32,272,944)	(32,272,944)
Benefits paid	(11,061,141)	9,675,338	(1,385,803)
Other (transfer among related companies)	491,455	70,331	561,786
Ending balance	₩ 222,958,671	₩ (206,099,231)	₩ 16,859,440

	2012		
	Present value of defined benefit obligation	Plan assets	Total
Acquisition by spin-off	₩ 154,113,376	₩ (126,519,393)	₩ 27,593,983
Current service cost	11,906,829	-	11,906,829
Interest expense (income)	2,506,744	(1,880,863)	625,881
Subtotal	168,526,949	(128,400,256)	40,126,693
Remeasurement	26,638,945	(102,493)	26,536,452
Company contributions	-	(49,892,122)	(49,892,122)
Benefits paid	(979,041)	489,585	(489,456)
Other (Foreign currency translation)	(57,704)	-	(57,704)
Ending balance	₩ 194,129,149	₩ (177,905,286)	₩ 16,223,863

(4) Amounts recognized in the consolidated statements of comprehensive income regarding defined benefit plans for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013		2012	
Current service cost	₩	44,644,668	₩	11,906,829
Interest cost		8,778,227		2,506,744
Expected return on plan assets		(7,512,333)		(1,880,863)
Total	₩	45,910,562	₩	12,532,710

18. PROVISIONS:

(1) Details of provisions as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		December 31, 2012	
Provision for product liabilities	₩	6,859,450	₩	6,962,150
Provision for product warranties		44,994,779		44,431,316
Long-term debts for employees		448,085		228,394
Other provisions		13,593,039		14,262,133
Total	₩	65,895,353	₩	65,883,993

(2) Changes in provisions for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013					
	Beginning balance	Loss on restoration	Changes	Foreign currency translation	Ending balance	Current classification
Provision for product liabilities (*1)	₩ 6,962,150	₩ -	Decrease in restoration provisions ₩ -	₩ (102,700)	₩ 6,859,450	Current ₩ - Non-current ₩ 6,859,450
Provision for product warranties (*2)	44,431,316	23,504,703	(22,075,697)	(865,543)	44,994,779	- 44,994,779
Long-term debts for employees	14,262,133	739,873	(1,179,919)	(229,048)	13,593,039	- 13,593,039
Other provisions (*3)	228,394	219,691	-	-	448,085	- 448,085
Total	₩ 65,883,993	₩ 24,464,267	₩ (23,255,616)	₩ (1,197,291)	₩ 65,895,353	₩ - ₩ 65,895,353

	2012						
	Changes				Current classification		
	Acquisition by spin-off	Loss on restoration	Decrease in restoration provisions	Foreign currency translation	Ending balance	Current	Non-current
Provision for product liabilities(*1)	₩ 9,076,800	₩ -	₩ (1,632,600)	₩ (482,050)	₩ 6,962,150	₩ -	₩ 6,962,150
Provision for product warranties (*2)	44,054,093	10,550,351	(9,120,513)	(1,052,615)	44,431,316	-	44,431,316
Long-term debts for employees	13,604,310	657,823	-	-	14,262,133	-	14,262,133
Other provisions (*3)	224,874	3,520	-	-	228,394	-	228,394
Total	₩ 66,960,077	₩ 11,211,694	₩(10,753,113)	₩ (1,534,665)	₩ 65,883,993	₩ -	₩ 65,883,993

- (*1) The Group recognized additional estimated cost as provision on the potential losses under Product Liability Act
- (*2) The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Estimation is based on the past experience of provision for product warranties, but can be affected by other events relating to new materials, change on production process and the quality of products.
- (*3) The Group recognized expected estimated loss resulting from the first trial pending in court as loss on restoration in the other provisions (see Note 37).

19. OTHER LIABILITIES:

Details of other liabilities as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	2013		2012	
Advance received	₩	26,291,228	₩	7,888,273
Withholdings		39,685,772		7,295,234
Unearned revenue		47,212,078		41,354,815
Others		1,111,877		2,084,519
Total	₩	114,300,955	₩	58,622,841

20. CAPITAL STOCK:

Details of capital stock as of December 31, 2013 and 2012, are as follows (Korean won):

	December 31, 2013		December 31, 2012	
Authorized (shares)		250,000,000		250,000,000
Par value	₩	500	₩	500
Outstanding (shares):				
Ordinary share		123,875,069		123,875,069
Capital stock:				
Common stock	₩	61,937,534,500	₩	61,937,534,500

As of December 31, 2013, the Group holds 22,388 fractional shares in treasury, which has been made by spin-offs, and records treasury stock as other paid-in capital.

21. OTHER PAID-IN CAPITAL:

Details of other paid-in capital as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		December 31, 2012	
Additional paid-in capital	₩	2,993,465,738	₩	2,993,465,738
Treasury stocks		(1,088,018)		(1,088,018)
Total	₩	<u>2,992,377,720</u>	₩	<u>2,992,377,720</u>

22. RETAINED EARNINGS AND DIVIDENDS:

(1) Details of retained earnings as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		December 31, 2012	
Legal reserve:	₩	4,954,107	₩	-
Subtotal		4,954,107		-
Voluntary reserve				-
Dividend equalization reserve		10,000,000		-
Officer's retirement bonus reserv		1,000,000		-
Voluntary reserve		10,000,000		-
Subtotal		21,000,000		-
Earned surplus reserve		883,241,611		211,566,946
Total	₩	<u>909,195,718</u>	₩	<u>211,566,946</u>

(2) Details of changes in retained earnings for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013		2012	
Beginning balance	₩	211,566,946	₩	-
Net income		737,926,606		231,568,971
		(49,541,072)		-
Remeasurement of defined benefit plans		12,178,024		(26,536,452)
Income tax effects		(2,941,182)		6,413,976
Changes in non-controlling interest		6,396		120,451
Ending balance	₩	<u>909,195,718</u>	₩	<u>211,566,946</u>

(3) Details of changes in remeasurement of defined benefit plans for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013		2012	
Beginning balance	₩	(20,002,025)	₩	-
Current changes		12,171,627		(26,536,453)
Income tax effects		(2,941,182)		6,413,977
Changes in non-controlling interest		6,396		120,451
Ending balance	₩	<u>(10,765,184)</u>	₩	<u>(20,002,025)</u>

23. OTHER EQUITY:

(1) Details of other capital components as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Losses on valuation of AFS securities, net	₩ 595,746	₩ (38,289)
Cash flow hedging reserve	-	(229,798)
Gains on translation of foreign operations	<u>(46,569,781)</u>	<u>(53,544,688)</u>
Total	<u>₩ (45,974,035)</u>	<u>₩ (53,812,775)</u>

(2) Details of changes in gains and losses on valuation of AFS securities for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2013</u>	<u>2012</u>
Beginning balance	₩ (38,289)	₩ -
Losses on valuation of AFS securities, net	647,066	(36,522)
Tax effects on valuation of AFS securities, net	(10,981)	(1,489)
Changes in non-controlling interest	<u>(2,050)</u>	<u>(278)</u>
Ending balance	<u>₩ 595,746</u>	<u>₩ (38,289)</u>

(3) Details of changes in cash flow hedging reserve for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2013</u>	<u>2012</u>
Beginning balance	₩ (229,798)	₩ -
Losses on cash flow hedging reserve	303,164	(303,164)
Tax effects on the other comprehensive income	<u>(73,366)</u>	<u>73,366</u>
Ending balance	<u>₩ -</u>	<u>₩ (229,798)</u>

(4) Details of changes in gains and losses on translation of foreign operations for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2013</u>	<u>2012</u>
Beginning balance	₩ (53,544,688)	₩ -
Changes in current period	7,546,758	(52,643,140)
Tax effects on the other comprehensive income	(490,107)	(1,073,406)
Changes in non-controlling interest	<u>(81,744)</u>	<u>171,859</u>
Ending balance	<u>₩ (46,569,781)</u>	<u>₩ (53,544,687)</u>

24. SALES AND COST OF SALES:

(1) Details of sales for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2013</u>	<u>2012</u>
Sale of goods	₩ 7,057,630,146	₩ 2,315,674,903
Sale of finished goods	7,361,419,981	2,392,687,206
Sale discount	(115,991,880)	(34,684,867)
Export fees	(168,500,534)	(28,602,832)
Sales incentive	(19,297,421)	(13,724,604)
Rendering of services	11,607,507	1,548,501
Rental sales	2,540,226	773,756
Service sales	675,934	212,459
Other sales	8,391,347	562,286
Total	<u>₩ 7,069,237,653</u>	<u>₩ 2,317,223,404</u>

(2) Details of cost of sales for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2013</u>	<u>2012</u>
Cost of finished goods sold	₩ 4,722,470,499	₩ 1,560,409,800
Custom duties reimbursed	(10,920,716)	(3,373,512)
Loss (reversal of) on valuation of inventories, net	(699,182)	4,736,879
Total	<u>₩ 4,710,850,601</u>	<u>₩ 1,561,773,167</u>

25. SELLING AND ADMINISTRATIVE EXPENSES:

(1) Details of selling expenses for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2013</u>	<u>2012</u>
Payroll	₩ 50,081,046	₩ 16,478,696
Provision for severance benefits	2,875,806	1,451,257
Travel and transportation expenses	175,925,247	56,875,678
Ship transportation expenses	157,895,387	51,772,850
Packing charges	12,640,117	3,861,617
Advertisement	207,462,943	84,746,847
Other export expenses	11,871,068	4,330,617
Foreign market development expenses	132,467	127,595
Sales damage expenses	23,504,703	10,550,351
Total	<u>₩ 642,388,784</u>	<u>₩ 230,195,508</u>

(2) Details of administrative expense for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013	2012
Payroll	₩ 128,894,904	₩ 40,920,098
Provision for severance benefits	5,680,564	1,051,354
Utility expenses	6,364,516	2,155,563
Depreciation	40,910,936	13,024,117
Repairs expenses	4,115,705	1,380,991
Supplies expenses	4,078,555	1,744,894
Taxes and dues	22,817,008	12,015,077
Rental expenses	26,706,866	8,015,139
Insurance	9,410,015	4,034,967
Employee benefits	43,617,444	11,242,429
Travel expenses	18,412,400	5,961,025
Communication expenses	5,030,680	1,707,993
Service expenses	37,766,507	12,361,674
Service fees	53,701,434	15,683,463
Entertainment expenses	6,644,187	2,139,508
Publication expenses	1,113,960	248,799
Training expenses	2,769,530	911,429
Vehicles maintenance expenses	4,910,258	1,545,195
Provision (Reversal of allowance) for doubtful accounts	2,288,328	(2,053,664)
Amortization of intangible assets	4,309,538	1,257,148
Warehouse charges	47,681,873	9,943,368
Brand loyalty expenses (old)	-	14,294
Test expenses	9,517,625	2,073,015
Overseas branch maintenance expenses	7,555,840	2,085,413
SSC service fee	18,528,573	5,961,406
Brand loyalty expenses	43,278,285	13,376,092
Amortization of investment property	699,695	-
Miscellaneous expenses	3,669,586	303,422
Conference expenses	580,772	-
Total	₩ 561,055,584	₩ 169,104,209

26. FINANCIAL INCOME:

(1) Details of financial income for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013	2012
Interest income:		
Short-term financial assets	₩ 16,634,096	₩ 4,511,803
Trade and other accounts receivable	517,273	485,327
AFS financial assets	22,605	92
Subtotal	17,173,974	4,997,222
Gain on foreign currency translation	23,766,200	4,297,328
Gain on foreign currency transaction	17,112,854	4,472,562
Total	₩ 58,053,028	₩ 13,767,112

(2) Details of financial income by categories for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013	2012
Loans and receivables	₩ 17,151,369	₩ 4,997,130
Financial assets AFS	22,605	92
Subtotal	<u>17,173,974</u>	<u>4,997,222</u>
Gain on foreign currency transaction from borrowings in foreign currency	7,938,184	3,197,784
Gain on foreign currency transaction from deposits in foreign currency	9,174,670	1,274,778
Gain on foreign currency translation from borrowings in foreign currency	3,311,910	3,685,262
Gain on foreign currency translation from deposits in foreign currency	<u>20,454,290</u>	<u>612,066</u>
Total	<u>₩ 58,053,028</u>	<u>₩ 13,767,112</u>

27. FINANCIAL EXPENSES:

Details of financial expenses for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013	2012
Interest expense:		
Common borrowings	₩ 56,993,742	₩ 22,751,027
Bonds interest	5,911,857	2,057,744
Subtotal	<u>62,905,599</u>	<u>24,808,771</u>
Qualifying assets	<u>(830,928)</u>	<u>(405,250)</u>
Subtotal	<u>62,074,671</u>	<u>24,403,521</u>
Loss on disposal of AFS securities	17,138	3,902
Loss on foreign currency transaction from borrowings in foreign currency	15,706,199	1,011,198
Loss on foreign currency transaction from deposits in foreign currency	12,739,312	11,069,447
Loss on foreign currency translation from borrowings in foreign currency	3,075,869	6,710,086
Loss on foreign currency translation from deposits in foreign currency	10,912,764	4,555,450
Loss on foreign currency translation from short and long-term loans in foreign currency	<u>1,883,000</u>	<u>3,175,000</u>
Total	<u>₩ 106,408,953</u>	<u>₩ 50,928,604</u>

28. OTHER NON-OPERATING INCOME:

Details of other non-operating income for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013	2012
Commission income	₩ 432,521	₩ 135,200
Dividend income	83,455	62,741
Royalty fee income	1,260,480	50,486
Rental income	869,084	655,647
Reversal of allowance for doubtful accounts	216,546	-
Gains on foreign currency transaction	138,286,160	64,861,679
Gains on foreign currency translation	41,224,646	33,736,108
Gains on foreign exchange forward transaction	-	11,021
Gains on disposal of property, plant and equipment	1,937,637	614,706
Gains on insurance settlements	30,103	119,591
Other non-operating income	<u>27,253,763</u>	<u>10,581,461</u>
Total	<u>₩ 211,594,395</u>	<u>₩ 110,828,640</u>

29. OTHER NON-OPERATING EXPENSES:

Details of other non-operating expenses for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2013</u>	<u>2012</u>
Donation	₩ 3,959,773	₩ 1,672,392
Losses on disposal of property, plant and equipment	13,800,109	4,014,335
Losses on property abandoned	114,557	1,999,564
Losses on disposal of intangible assets	735	-
Other bad debt expenses	-	1,603,133
Losses on inventory abandoned	2,459,366	822,817
Losses on disposal of trade receivable	569,578	807,919
Losses on valuation of foreign exchange forward contracts	367,273	219,160
Losses on foreign currency transaction	133,593,376	51,089,637
Losses on foreign currency translation	46,005,292	24,968,379
Loss on restoration in other provisions	219,692	3,520
Other non-operating expenses	3,479,766	1,530,118
Total	<u>₩ 204,569,517</u>	<u>₩ 88,730,974</u>

30. INCOME TAX EXPENSE:

(1) Income tax expenses for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2013</u>	<u>2012</u>
Current income tax expense	₩ 245,525,730	₩ 56,937,712
Deferred income tax expense	9,117,833	5,576,569
Changes in temporary difference	12,633,470	164,122
Deferred income tax directly adjusted in equity	(3,515,637)	5,412,447
Income tax expense of the Group	<u>₩ 254,643,563</u>	<u>₩ 62,514,281</u>

(2) The reconciliation from income before income tax expense to income tax expense for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2013</u>	<u>2012</u>
Income before income tax expense	₩ 989,675,449	₩ 293,528,356
Income tax expense calculated at applicable tax rates	238,768,426	70,879,862
Adjustments	15,875,137	(8,365,581)
Non-taxable income	(31,754)	614,537
Disallowed expenses	1,330,292	(73,213)
Tax credit and exemptions	(5,196,273)	(2,293,221)
Additional income tax and tax refund	22,037,169	-
Others	(2,264,297)	(6,613,684)
Income tax expense	<u>₩ 254,643,563</u>	<u>₩ 62,514,281</u>

(3) The components of temporary differences and deferred income tax assets (liabilities)

The changes in accumulated temporary differences for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013	2012
The Parent Company		
Beginning balance of accumulated temporary difference, net	₩ (101,248,853)	₩ (90,086,641)
Changes in the current year, net	26,411,267	(11,162,212)
Ending balance of accumulated temporary difference, net	(74,837,586)	(101,248,853)
Exclusion from temporary difference due to uncertainty of realization (*2)	87,638,243	3,142,654
Subtotal	(162,475,829)	(104,391,507)
Statutory tax rate	(*1)24.20%	(*1)24.20%
Deferred income tax assets of the Parent Company	(39,319,151)	(25,262,744)
Deferred income tax assets of consolidated subsidiaries and others	14,216,722	8,428,032
Deferred income tax assets of adjusting consolidation	100,187,609	104,553,362
Ending balance of deferred income tax assets in consolidation	₩ 75,085,180	₩ 87,718,650

(*1) The tax rates are expected average tax rates applicable in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted by the end of the reporting period.

(*2) Deferred tax assets (liabilities) are not recognized for temporary differences which are not probable to reverse in the foreseeable future.

(4) Details of deferred income tax directly added to or subtracted from equity as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013			
	Before tax	Income tax effect	After tax	Non-controlling interest
Gain (loss) on valuation of AFS financial assets	₩ 608,216	₩ (12,470)	₩ 595,746	₩ 2,327
Remeasurement of retirement benefit plan	(14,204,005)	3,438,822	(10,765,183)	(126,847)
Gains (losses) on valuation of foreign exchange forward contracts	-	-	-	-
Exchange differences on translating foreign operations	(45,006,267)	(1,563,514)	(46,569,781)	(90,114)
Total	₩ (58,602,056)	₩ 1,862,838	₩ (56,739,218)	₩ (214,634)
	December 31, 2012			
	Before tax	Income tax effect	After tax	Non-controlling interest
Gain (loss) on valuation of AFS financial assets	₩ (36,800)	₩ (1,489)	₩ (38,289)	₩ 278
Remeasurement of retirement benefit plan	(26,382,028)	6,380,004	(20,002,024)	(120,451)
Gains (losses) on valuation of foreign exchange forward contracts	(303,164)	73,366	(229,798)	-
Exchange differences on translating foreign operations	(52,471,281)	(1,073,406)	(53,544,687)	(171,859)
Total	₩ (79,193,273)	₩ 5,378,475	₩ (73,814,798)	₩ (292,032)

31. EXPENSE CLASSIFICATION BY NATURE:

Expenses classified by nature for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2013			
	Cost of sales	Selling and administrative expenses	Research and development expenses	Total
Changes in inventories				
Finished goods	₩ (130,507,763)	₩ -	₩ -	₩ (130,507,763)
Work in process	2,408,846	-	-	2,408,846
Supplies	(1,362,777)	-	-	(1,362,777)
Raw materials	2,993,406,519	-	-	2,993,406,519
Payroll	549,145,560	231,149,765	59,085,826	839,381,151
Depreciation of property, plant and equipment	351,973,803	40,910,936	13,017,087	405,901,826
Amortization of intangible assets	1,132,567	4,309,538	945,741	6,387,846
Service fees	18,279,410	53,701,434	5,063,205	77,044,049
Others	926,374,436	873,372,695	45,824,329	1,845,571,460
Total	₩ 4,710,850,601	₩ 1,203,444,368	₩ 123,936,188	₩ 6,038,231,157

	2012			
	Cost of sales	Selling and administrative expenses	Research and development expenses	Total
Changes in inventories				
Finished goods	₩ (9,930,372)	₩ -	₩ -	₩ (9,930,372)
Work in process	6,500,660	-	-	6,500,660
Supplies	(14,170)	-	-	(14,170)
Raw materials	1,164,610,929	-	-	1,164,610,929
Payroll	163,837,017	71,143,834	20,141,575	255,122,426
Depreciation of property, plant and equipment	115,507,294	13,024,118	4,804,462	133,335,874
Amortization of intangible assets	176,554	1,257,148	314,733	1,748,435
Service fees	5,128,408	15,683,463	1,326,421	22,138,292
Others	115,956,847	298,191,154	20,971,147	435,119,148
Total	₩ 1,561,773,167	₩ 399,299,717	₩ 47,558,338	₩ 2,008,631,222

32. EARNINGS PER SHARE:

(1) The Group's basic and diluted earnings per share for the year ended December 31, 2013, and the four months ended December 31, 2012, are computed as follows (Korean won in thousands):

	2013	2012
Net income of the parent	₩ 737,926,606,483	₩ 231,568,970,640
Dividends for preferred stock	-	-
Net income available for common shareholders	737,926,606,483	231,568,970,640
Weighted-average number of common shares outstanding (*2)	123,852,681	123,859,654
Basic and diluted earnings per share (*1)	₩ 5,958	₩ 1,870

(*1) Basic and diluted earnings per share are the same because there is no potentially dilutive common share issued by the Group.

(*2) The Group's outstanding common shares minus the number of treasury stock acquired are weighted-averaged.

33. SEGMENT INFORMATION:

The Group operates mainly in five geographical segments. Sales information by each segment for the year ended December 31, 2013, and the four months ended December 31, 2012, is as follows (Korean won in thousands):

Geographical segment	2013		2012	
	Amounts	Ratio (%)	Amounts	Ratio (%)
North America	₩ 1,393,987,046	19.7	₩ 459,915,789	19.8
South and Central America	69,259,622	1.0	87,065,386	3.8
Asia, except Korea	1,548,454,277	21.9	668,450,587	28.8
Europe	1,569,716,410	22.2	544,318,115	23.5
Domestic	2,487,820,298	35.2	557,473,527	24.1
Total	₩ 7,069,237,653	100.0	₩ 2,317,223,404	100.0

34. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2013, are as follows:

Type	Name of related parties
Individuals	Yang-Rai Cho, Hyun-Shick Cho, Hyun-Bum Cho
Holding Company	Hankook Tire Worldwide Co., Ltd.
Holding Company's associates	Atlas BX Co., Ltd., EmFrontier Inc., Frixia Co., Ltd., Atlas BX Motorsports Co., Ltd.
Domestic Subsidiaries	Daehwa Engineering & Machinery Co., Ltd., Hanyang Tire Sales Corp., MKT Holdings Co., Ltd, MK Technology Corp.
Overseas Subsidiaries	Hankook Tire America Corp., Hankook Tyre U.K. Ltd., Jiangsu Hankook Tire Co., Ltd., Hankook Tire China Co., Ltd., Shanghai Hankook Tire Sales Co., Ltd., Hankook Tire Netherlands B.V., Hankook Tire Japan Corp., Hankook Tire Canada Corp., Hankook Reifen Deutschland GmbH, Hankook Tire France SARL, Hankook Tire Italia S.R.L., Hankook Espana S.A., Hankook Tyre Australia Pty., Ltd., Hankook Tire Hungary Ltd., Hankook Tire Europe Holdings B.V., Hankook Tire Europe GmbH, Hankook Tire Budapest Kereskedelmi Kft, Hankook Tire DE Mexico, S.A. DE C.V., Chongqing Hankooktire Co., Ltd., Hankook Tire Rus LLC, PT Hankook Tire Indonesia, MK Mold (Jiaxing) Co., LTD., Hankook Tire Budapest Kereskedelmi Kft.,Sp.zo.o. Polish Branch, Hankook Tire Singapore PTE., Ltd., Hankook Tire Malaysia SDN.BHD. Hankook Tire Sweden Ltd., Beijing Jielun Trading Company Co., Ltd., Hankook Lastikleri A.S., Hankook Tire Polska Sp. z o.o., Hankook Tire Thailand Co., Ltd.
Others (*)	Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery Jiaying Co., Ltd., Another WTE Co., Ltd., H-2 WTE Co., Ltd., Another Geumsan Co., Ltd.

(*) Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Another WTE Co., Ltd., H-2 WTE Co., Ltd., and Another Geumsan Co., Ltd. are the affiliates of the Group. However, the Group does not hold any shares of those affiliates.

(2) Transactions between the Group and related parties are as follows:

1) Transactions between the parent and subsidiaries are eliminated through consolidation and not disclosed in the notes. Transactions between the Group and other related parties for the year ended December 31, 2013, and the four months ended December 31, 2012, are as follows (Korean won in thousands):

a) Sales and others

	2013		2012	
	Sales	Others	Sales	Others
Atlas BX Co., Ltd.	₩ 18,852	₩ -	₩ 270,445	₩ -
EmFrontier Inc.	-	6,263	-	-
Frixa Co., Ltd.	-	28,170	-	-
Hankook Tire Worldwide Co., Ltd.	-	30,005	-	10,519
Total	₩ 18,852	₩ 64,438	₩ 270,445	₩ 10,519

b) Purchases and others

	2013		2012	
	Purchases	Others	Purchases	Others
Atlas BX Co., Ltd.	₩ 44,674,959	₩ -	₩ 23,189,700	₩ -
EmFrontier Inc.	15,300,688	13,050,136	-	24,726,621
Shin-Yang Tourist Development	-	-	-	58,264
Frixa Co., Ltd.	7,817,615	-	-	2,709,322
Atlas BX Motorsports Co., Ltd.	-	-	-	67,958
Hankook Tire Worldwide Co., Ltd.	-	67,389,296	-	21,908,171
Total	₩ 67,793,262	₩ 80,439,432	₩ 23,189,700	₩ 49,470,336

2) Outstanding balances of receivables and payables as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

a) Accounts receivables and others

	December 31, 2013		December 31, 2012	
	Accounts receivables	Other accounts receivables	Accounts receivables	Other accounts receivables
Atlas BX Co., Ltd.	₩ 14,974	₩ -	₩ 46,780	₩ -
EmFrontier Inc.	6,890	-	-	-
Hankook Tire Worldwide Co., Ltd.	-	1,931,256	-	10,519
Total	₩ 21,864	₩ 1,931,256	₩ 46,780	₩ 10,519

b) Accounts payables and others

	December 31, 2013		December 31, 2012	
	Accounts payables	Other accounts payables	Accounts payables	Other accounts payables
Atlas BX Co., Ltd.	₩ 21,684,247	₩ -	₩ 6,201,561	₩ -
EmFrontier Inc.	1,522,723	9,124,147	1,043,504	8,411,075
Frixa Co., Ltd.	697,700	-	635,592	-
Hankook Tire Worldwide Co., Ltd.	-	23,729,148	-	56,373,682
Atlas BX Motorsports Co., Ltd.	-	-	-	10,463
Shin-Yang Tourist Development	-	2,932,902	-	13,102
Total	₩ 23,904,670	₩ 35,786,197	₩ 7,880,657	₩ 64,808,322

- 3) Hankook Tire Worldwide Co., Ltd. (the surviving company) provides joint surety to the Group for the liabilities incurred before the spin-off. The guarantees provided by Hankook Tire Worldwide Co., Ltd., jointly and severally as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

Unit	December 31, 2013		December 31, 2012	
	Foreign currency	Korean won	Foreign currency	Korean won
USD	340,000,000	₩ 358,802,000	560,000,000	₩ 599,816,000
EUR	234,854,441	342,009,128	560,354,441	793,607,581
HUF	16,097,000,000	79,036,270	16,097,000,000	78,392,390
Total		₩ 779,847,398		₩ 1,471,815,971

Also, outstanding credit facility agreements provided by Hankook Tire Worldwide Co., Ltd., jointly and severally as of December 31, 2013 and 2012, are as follows (in thousands):

Unit	December 31, 2013		December 31, 2012	
	Foreign currency	Korean won	Foreign currency	Korean won
KRW	-	₩ -	408,780,000	₩ 408,780,000
USD	70,000	73,871,000	1,619,000	1,734,110,900
EUR	25,000	36,406,500	60,000	84,975,600

Of the Group's borrowings, USD 50,000,000 owed to Korea Finance Corporation was incurred before the spin-off, so that Hankook Tire Worldwide Co., Ltd., is jointly and severally liable with the Group.

- 4) Compensation for key management personnel for the year ended December 31, 2013, and the four months ended December 31, 2012, is as follows (Korean won in thousands):

	2013		2012	
Short-term benefits	₩	7,315,849	₩	1,213,717
Severance and retirement benefits		1,552,873		335,888
	₩	8,868,722	₩	1,549,605

35. CASH AND CASH EQUIVALENTS:

- (1) Cash and cash equivalents consist of cash and bank deposit minus overdraft on the consolidated statements of cash flows. As of December 31, 2013 and 2012, cash and cash equivalents of the consolidated financial statements are calculated as follows (Korean won in thousands):

	December 31, 2013		December 31, 2012	
Cash and bank deposits	₩	682,413,905	₩	485,612,512
Overdraft		-		-
Cash and cash equivalents	₩	682,413,905	₩	485,612,512

36. FINANCIAL INSTRUMENTS:

- (1) 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 utilizes the debt ratio as capital management index which is the total liabilities divided by the total equity. Total liabilities and total equity are based on the amounts stated in the financial statements.

The Group is not subject to any externally imposed capital requirements.

The debt ratios at end of the reporting period are as follows (Korean won in thousands):

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Total liabilities	₩ 3,852,577,581	₩ 3,960,968,823
Total shareholders' equity	3,924,135,810	3,221,485,621
Debt ratio	<u>98.18%</u>	<u>122.95%</u>

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

(3) Categories of financial instruments as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	Account	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
		Book value	Fair value	Book value	Fair value
<u>Financial Assets</u>					
Financial assets AFS	AFS Financial assets	₩ 3,079,761	₩ 3,079,761	₩ 2,776,458	₩ 2,776,458
Loans and receivables	Cash and cash equivalents	682,413,905	682,413,905	485,612,512	485,612,512
	Short-term financial assets	482,458,755	482,458,755	194,283,138	194,283,138
	Trade receivables	1,057,214,638	1,057,214,638	1,052,183,209	1,052,183,209
	Other accounts receivable	124,720,243	124,720,243	118,138,014	118,138,014
	Accrued income	9,061,168	9,061,168	14,084,153	14,084,153
	Short-term loans	589,803	589,803	474,467	474,467
	Deposits provided (current)	1,701,568	1,701,568	1,244,423	1,244,423
	Deposits provided	10,549,067	10,549,067	9,751,420	9,751,420
	Long-term financial assets	71,909	71,909	94,550	94,550
	Long-term loans	4,495,299	4,495,299	4,465,433	4,465,433
Total		<u>₩ 2,376,356,116</u>	<u>₩ 2,376,356,116</u>	<u>₩ 1,883,107,777</u>	<u>₩ 1,883,107,777</u>
<u>Financial Liabilities</u>					
Derivatives designated as a hedging instrument	Derivative financial liabilities	₩ -	₩ -	₩ 303,164	₩ 303,164
Financial liabilities at amortized cost	Trade payables	459,255,274	459,255,274	389,674,803	389,674,803
	Other accounts payable	327,450,108	327,450,108	469,189,933	469,189,933
	Accrued expenses	138,269,683	138,269,683	80,751,635	80,751,635
	Dividends payable	8,653	8,653	-	-
	Short-term borrowings	1,672,518,879	1,672,518,879	1,858,478,772	1,858,478,772
	Current portion of long-term borrowings	83,047,183	83,047,183	74,813,908	74,813,908
	Long-term borrowings	619,155,188	619,155,188	734,455,576	734,455,576
	Debentures	203,733,365	203,733,365	149,481,404	149,481,404
	Rental deposits	4,676,638	4,676,638	3,851,763	3,851,763
Total		<u>₩ 3,508,114,971</u>	<u>₩ 3,508,114,971</u>	<u>₩ 3,761,000,958</u>	<u>₩ 3,761,000,958</u>

(4) 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, interest rate risk and price risk), credit risk and liquidity 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 Company through internal risk reports, which analyze the scope and degree of each risk factor.

The Group uses derivative financial instruments to hedge against the risks listed. The use of derivatives is decided on the observance of the Group's policies approved by the board of the directors. They provide the documented

principles of currency risk, interest rate risk, credit risk, use of derivatives/non-derivatives and excessive liquidity investments. The audit committee constantly oversees the observance of the policies and the degree of risk exposure. The Group does not trade the financial instruments, including derivatives for the speculative purpose.

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

2) Market risk

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

a) Foreign currency risk management

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

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than the functional currency belonging to the parent as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
AUD	₩ 28,222	₩ 161	₩ 25,983	₩ 81
CAD	17,218	16,714	22,552	20,302
CNY	646	-	-	-
EUR	128,136	104,000	108,395	72,855
GBP	18,016	18,029	11,495	10,170
IDR	-	116,476	-	-
JPY	2,350,713	2,079,992	2,401,655	2,281,415
MXN	334,667	392	335,331	-
MYR	511	-	-	-
NOK	11,989	408	28,243	-
NZD	2,932	27	2,806	7
PLN	33,687	-	8,483	-
RUB	748,081	37,723	775,447	-
SEK	45,968	43,660	67,331	774
THB	1,299	-	-	-
TRY	-	157	-	-
USD	482,274	630,463	556,148	672,878

The Group's sensitivity to a 10% increase and decrease in the KRW (functional currency of the Group) against the major foreign currencies as of December 31, 2012, is presented in the table below (Korean won in thousands). The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 10% and it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the period-end for a 10% change in foreign currency rates. Also, it covers intragroup loans to foreign operations denominated in other currencies than those of creditors and debtors as well as loans to external parties.

A positive number below indicates an increase in profit and other equity where the KRW weakens 10% against the relevant currency. For a 10% strengthening of the KRW against the relevant currency, there would be an equal and opposite impact on the profit and other equity (Korean won in thousands):

	Profit or loss		Equity	
AUD	₩	2,806	₩	2,806
CAD		50		50
CNY		65		65
EUR		2,414		2,414
GBP		(1)		(1)
IDR		(11,648)		(11,648)
JPY		27,072		27,072
MXN		33,428		33,428
MYR		51		51
NOK		1,158		1,158
NZD		291		291
PLN		3,369		3,369
RUB		71,036		71,036
SEK		231		231
THB		130		130
TRY		(16)		(16)
USD		(14,819)		(14,819)

The Group sets up the policy which confines the use of derivatives to mitigate the currency risk occurring when collecting receivables and settling payables in foreign currencies. Also, the forward exchange contracts are utilized to control the currency risk derived from highly probable forecast transactions of sales and purchase not exceeding the amount exposed to risk. In the same period during which the highly probable forecast transactions of sales and purchase affect profit or loss, the associated gains and losses of derivatives that were designated as effective instruments in a hedge are reclassified to adjust the initial cost or other carrying amount of non-financial assets or liabilities.

The following table details the forward foreign currency contracts outstanding as of December 31, 2012, and there is no forward foreign currency contract outstanding as of December 31, 2013 (Korean won in thousands):

		December 31, 2012						
	Contract date	Expiry date	Contract sum	Settlement currency	Cap rate	Floor rate	Gain (loss) on valuation	
Standard Chartered	2012/7/12	2013/1/4	EUR 1,000,000	USD	1.1386	1.2845	₩ (36,500)	
	2012/7/12	2013/1/18	EUR 1,000,000	USD	1.1386	1.2845	(37,779)	
	2012/7/12	2013/2/1	EUR 1,000,000	USD	1.1386	1.2845	(39,652)	
	2012/9/25	2013/3/15	EUR 1,000,000	USD	1.2	1.352	(7,630)	
	2012/9/25	2013/3/29	EUR 1,000,000	USD	1.2	1.352	(8,843)	
Credit Suisse	2012/7/12	2013/1/11	EUR 1,000,000	USD	1.1377	1.2855	(36,635)	
	2012/7/12	2013/1/25	EUR 1,000,000	USD	1.1377	1.2855	(38,530)	
	2012/7/12	2013/2/8	EUR 1,000,000	USD	1.1377	1.2855	(40,612)	
	2012/9/5	2013/2/22	EUR 1,000,000	USD	1.1377	1.2855	(13,843)	
	2012/9/5	2013/3/8	EUR 1,000,000	USD	1.1377	1.2855	(16,144)	
Deutsche Bank AG	2012/9/5	2013/3/22	EUR 1,000,000	USD	1.1377	1.2855	(18,218)	
	2012/9/25	2013/2/15	EUR 1,000,000	USD	1.2	1.355	(3,763)	
	2012/9/25	2013/2/28	EUR 1,000,000	USD	1.2	1.355	(5,015)	
Total			<u>EUR 13,000,000</u>				₩ <u>(303,164)</u>	

b) Interest rate risk

The Group is exposed to interest rate risk since it borrows funds with fixed and variable interest rates. The Group maintains a balance between borrowings with variable interest rate and fixed interest rate or commits interest swap contract to manage interest rate risk. Risk aversion activity is evaluated regularly to reconcile changes in interest rate with defined risk propensity so that the optimized risk aversion strategy can be implemented.

The book values of liabilities exposed to interest rate risk as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013		December 31, 2012	
Borrowings (floating rate)	₩	1,064,984,890	₩	820,001,638

The sensitivity analysis is performed with the assumption that liabilities with variable interest rates at the end of the fiscal year existed during the corresponding year-end, based on exposures to interest rate risk of both derivative and non-derivative instruments. When reporting interest rate risk to management internally, an analysis based on an increase/decrease of 50-basis points is used. This represents management consideration for a reasonable possibility of change in interest rates.

Based on the sensitivity analysis, assuming all other variables to be the same, if interest rate is 50bp higher/lower than current interest rates, the Group's income would vary as follows (Korean won in thousands):

	50 bp increase				50 bp decrease			
	Profit or loss		Equity		Profit or loss		Equity	
December 31, 2013	₩	(5,324,924)	₩	(5,324,924)	₩	5,324,924	₩	5,324,924
December 31, 2012	₩	(4,100,008)	₩	(4,100,008)	₩	4,100,008	₩	4,100,008

For the year ended December 31, 2013, the Group's interest rate sensitivity increased because of increase in floating rate borrowings. The degree of exposure to interest rate risk of financial assets (liabilities) is explained further in 4) Liquidity risk management.

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.

3) Credit risk management

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

Of the financial assets exposed to credit risk, the book value of other financial assets represents the best estimate on the maximum exposure to credit risk.

a) Details of liquidity and interest rate risk

The table below illustrates remaining contractual maturity of non-derivative financial liabilities in detail. Contractual maturity is based on the earliest day when the payment can be claimed to the Group. The cash flows in the table indicate that the principal and interest are not discounted, and the interest on cash flows of floating interest rate is derived from the yield curve at the end of the reporting period.

Maturity analyses of non-derivative financial liabilities according to their remaining maturity as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013			
	Within a year	1-5 years	After 5 years	Total
<u>Interest free:</u>				
Trade payables	₩ 459,255,274	₩ -	₩ -	₩ 459,255,274
Other accounts payable	327,450,108	-	-	327,450,108
Accrued expenses	138,269,683	-	-	138,269,683
Rental deposits	4,676,638	-	-	4,676,638
<u>Floating rate financial instrument:</u>				
Short-term borrowings	515,892,327	-	-	515,892,327
Long-term borrowings	-	549,092,563	-	549,092,563
<u>Fixed-rate financial instrument:</u>				
Short-term borrowings	1,156,626,551	-	-	1,156,626,551
Long-term borrowings	83,047,183	69,262,625	800,000	153,109,808
Debentures	-	204,065,869	-	204,065,869
Total	₩ 2,685,217,764	₩ 822,421,057	₩ 800,000	₩ 3,508,438,821

	December 31, 2012			
	Within a year	1-5 years	After 5 years	Total
<u>Interest free:</u>				
Trade payables	₩ 389,674,803	₩ -	₩ -	₩ 389,674,803
Other accounts payable	469,189,933	-	-	469,189,933
Accrued expenses	80,751,635	-	-	80,751,635
Rental deposits	3,851,763	-	-	3,851,763
<u>Floating rate financial instrument:</u>				
Short-term borrowings	790,651,182	-	-	790,651,182
Long-term borrowings	-	29,350,456	-	29,350,456
<u>Fixed-rate financial instrument:</u>				
Short-term borrowings	1,142,641,498	-	-	1,142,641,498
Long-term borrowings	83,047,183	621,257,938	800,000	705,105,121
Debentures	-	150,000,000	-	150,000,000
Total	₩ 2,959,807,997	₩ 800,608,394	₩ 800,000	₩ 3,761,216,391

The following table illustrates remaining contractual maturity of non-derivative financial assets in detail. The cash flows in the table indicate the principal and interest not discounted, and the interest cash flows of floating interest rate are derived from the yield curve at the end of the reporting period. For understanding the liquidity management of the Group, the details of non-derivative financial assets are stated because the liquidity is monitored and managed in terms of net assets (liabilities).

Maturity analyses of non-derivative financial assets according to their remaining maturity as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013			
	Within a year	1-5 years	After 5 years	Total
<u>Interest free:</u>				
Trade receivables	₩ 1,057,214,638	₩ -	₩ -	₩ 1,057,214,638
Other accounts receivable	124,720,243	-	-	124,720,243
Accrued income	9,061,168	-	-	9,061,168
Leasehold deposits provided	-	10,549,068	-	10,549,068
Deposits of acceptances and guarantees	1,701,568	-	-	1,701,568
Long-term financial instruments	-	-	71,909	71,909

	December 31, 2013			
	Within a year	1-5 years	After 5 years	Total
<u>Fixed-rate financial instrument:</u>				
Cash and cash equivalents	682,413,905	-	-	682,413,905
Short-term financial assets	482,458,755	-	-	482,458,755
Short-term loans	589,803	-	-	589,803
Long-term loans	-	4,495,299	-	4,495,299
Total	<u>₩ 2,358,160,080</u>	<u>₩ 15,044,367</u>	<u>₩ 71,909</u>	<u>₩ 2,373,276,356</u>
	December 31, 2012			
	Within a year	1-5 years	After 5 years	Total
<u>Interest free:</u>				
Trade receivables	₩ 1,052,183,210	₩ -	₩ -	₩ 1,052,183,210
Other accounts receivable	118,138,014	-	-	118,138,014
Accrued income	14,084,153	-	-	14,084,153
Leasehold deposits provided	-	9,751,420	-	9,751,420
Deposits of acceptances and guarantees	1,244,422	-	-	1,244,422
Long-term financial instruments	-	-	94,550	94,550
<u>Fixed-rate financial instrument:</u>				
Cash and cash equivalents	485,612,512	-	-	485,612,512
Short-term financial assets	194,283,138	-	-	194,283,138
Short-term loans	474,467	-	-	474,467
Long-term loans	-	4,465,433	-	4,465,433
Total	<u>₩ 1,866,019,916</u>	<u>₩ 14,216,853</u>	<u>₩ 94,550</u>	<u>₩ 1,880,331,319</u>

(5) Fair value of financial instruments

1) Valuation methods and assumptions applied in fair value measurement

The fair values of financial instruments (i.e., government bonds and unsecured corporate bonds) traded on active markets are determined with reference to quoted market prices. The Group uses the closing price as the quoted market price for its financial assets.

The fair values of derivatives where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. Non-option derivatives are evaluated by discounted cash flow method using the yield curve available. Options are evaluated by option-pricing models. Foreign exchange forward contracts are determined using the yield curve derived from market interest rates with the same maturity of forward contracts. To measure interest rate swaps, the cash flows are estimated by the yield curve derived from market interest rate and discounted to calculate the present value of swaps.

Fair values of other financial assets and liabilities (except those stated above) are calculated by generally accepted valuation models based on discounted cash flow analysis.

Equity instruments and debt instruments measured at fair value where no active market exists are included in the consolidated financial statements. They are estimated by discounted cash flow method and others, but some of applied assumptions are not grounded on observable market price and ratio.

2) Financial instruments that are measured subsequent to initial recognition at fair value are classified into Levels 1 to 3, based on the degree to which the fair value is observable, as described below:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

a) Financial instruments that are measured subsequent to initial recognition at fair value as of December 31, 2013 and 2012, are as follows (Korean won in thousands):

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
<u>Financial assets AFS</u>				
Marketable equity securities	₩ 2,075,206	₩ -	₩ -	₩ 2,075,206
Total	₩ 2,075,206	₩ -	₩ -	₩ 2,075,206

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
<u>Financial assets AFS</u>				
Marketable equity securities	₩ 1,771,903	₩ -	₩ -	₩ 1,771,903
<u>Derivative instruments</u>	-	(303,164)	₩ -	(303,164)
Total	₩ 1,771,903	₩ (303,164)	₩ -	₩ 1,468,739

(6) Reclassification of financial assets

There was no reclassification of financial assets by changes of purpose and use for the reporting period.

(7) Transfer of financial assets

Financial assets and associated liabilities which are transferred but not derecognized entirely as of December 31, 2013 and 2012, are categorized as follows (Korean won in thousands).

Book value	December 31, 2013		December 31, 2012	
Assets (*1)	₩	656,779,423	₩	613,838,571
Associated liabilities	₩	656,779,423	₩	613,838,571

(*1) If the trade receivables discounted and transferred to banks are not recovered at maturity, banks have the right of recourse to the Group. Therefore, the Group continues to recognize the book value of trade receivables transferred because all the risks and rewards of ownership are not transferred substantially.

37. COMMITMENTS AND CONTINGENCIES:

(1) Pledged assets as collateral

As of December 31, 2013, a certain part of the Group's land, buildings, machinery and equipment is pledged as collateral for borrowings as follows (Korean won and U.S. dollar in thousands):

Creditor	Pledged assets	Pledged amounts
The Korea Development Bank and others	Land, buildings, machinery and equipment	KRW 317,990,000
		USD 153,200
		CNY 116,715,159

(2) Details of insurance products

As of December 31, 2013, details of insurance provided to the Group are as follows (Korean won in thousands):

Product	Property insured	Sum insured	Beneficiary
Property All Risks	Buildings	₩ 6,334,514,146	The Group
Property All Risks	Inventories	1,010,079,189	The Group
Property All Risks	Machinery and equipment	3,474,336,075	The Group
Movable All Risks	Other investments	1,706,669	The Group
Total		₩ 10,820,636,079	

The Group is insured against potential future claims that may be brought out under the Product Liability Act in the Republic of Korea, which is effective as of July 1, 2002, and which penalizes a manufacturer or seller when a product is defective and causes injury or damage to a person or property.

The beneficial interest of insurance is pledged as collateral for the Group's borrowings (The Korea Development Bank: ₩122,000,000 thousand and USD 110,000 thousand, Woori Bank: ₩143,145,000 thousand and USD 43,200 thousand). In addition, vehicles are insured against a general and liability insurance policy.

(3) Outstanding credit facilities agreement

As of December 31, 2013 and 2012, details of outstanding credit facilities agreement of the Group are as follows (in thousands):

Description	Financial institutions	Currencies	December 31, 2013	
			Credit amount of agreements (In thousands)	In Korean won (In thousands)
Purchase card agreements	Woori Bank and others	KRW	185,000,000	₩ 185,000,000
		EUR	33	48,057
Bank overdraft agreements	Woori Bank and others	KRW	24,100,000	24,100,000
		USD	70,800	74,715,240
		EUR	267,300	389,258,298
		CAD	7,000	6,935,950
		GBP	5,000	8,703,300
Agreements to discount notes	Woori Bank and others	KRW	92,500,000	92,500,000
Agreements to discount trade receivable in foreign currencies ^(#2)	Woori Bank and others	USD	1,100,000	1,160,830,000
		EUR	56,045	81,616,092
		GBP	3,000	5,221,980
Agreements on general purpose loan	Korea Exchange Bank and others	KRW	104,850,000	104,850,000
		USD	1,858,535	1,961,311,986
		EUR	353,000	514,059,780
		CNY	1,454,972	253,296,128
		AUD	15,000	14,099,400
Agreements on short-term borrowings in foreign trade	Woori Bank and others	KRW	234,000,000	234,000,000
		USD	410,300	432,989,590
Guarantees for the payment of imported goods	Woori Bank and others	USD	530,000	559,309,000
Foreign exchange forward contracts	Woori Bank and others	USD	10,000	10,553,000
Credit line adjustment ^(#1)		KRW	(63,660,000)	(63,660,000)
TOTAL		KRW	576,790,000	₩ 6,049,737,801
		USD	3,979,635	
		EUR	676,378	
		CNY	1,454,972	
		AUD	15,000	

Description	Financial institutions	Currencies	December 31, 2013	
			Credit amount of agreements	In Korean won
		CAD	7,000	
		GBP	8,000	
Description	Financial institutions	Currencies	December 31, 2012	
			Credit amount of agreements (In thousands)	In Korean won (In thousands)
Purchase card agreements	Woori Bank and others	KRW	135,000,000	₩ 135,000,000
Bank overdraft agreements	Woori Bank and others	KRW	24,100,000	24,100,000
		USD	30,000	32,133,000
		EUR	235,500	333,529,230
		CAD	7,000	7,532,350
Agreements to discount notes	Woori Bank and others	KRW	62,500,000	62,500,000
Agreements to discount trade receivable in foreign currencies ^(*2)	Woori Bank and others	KRW	30,000,000	30,000,000
		USD	1,109,000	1,187,849,900
		EUR	102,500	145,166,650
Agreements on general purpose loan	Korea Exchange Bank and others	KRW	60,000,000	60,000,000
		USD	745,610	798,622,871
		EUR	13,000	18,411,380
		CNY	1,230,000	211,412,400
		AUD	10,000	11,114,300
		HUF	98,000,000	477,260,000
Agreements on short-term borrowings in foreign trade	Woori Bank and others	KRW	234,000,000	234,000,000
		USD	565,786	606,013,385
		CNY	1,520,000	261,257,600
Guarantees for the payment of imported goods	Woori Bank and others	USD	620,000	664,082,000
Credit line adjustment ^(*1)		KRW	(66,820,000)	(66,820,000)
TOTAL		KRW	478,780,000	₩ 5,233,165,066
		USD	3,070,396	
		EUR	351,000	
		CNY	2,750,000	
		AUD	10,000	
		HUF	98,000,000	
		CAD	7,000	

(*1) The Group's total outstanding line of credit from Korea Exchange Bank cannot exceed the credit limit amounting to ₩200,000,000 thousand.

(*2) As of December 31, 2013, the Group is provided guarantees (Credit line: USD 90,000 thousand) by Korea Trade Insurance Corporation with regard to agreements so as to discount trade receivable in foreign currencies, which was entered into with Deutsche Bank (USD 30,000 thousand), ING (USD 30,000 thousand) and RBS (EUR 22,000 thousand).

(4) Purchase agreement

As of December 31, 2013, the Group has purchase agreements on raw rubber materials with several suppliers, including Southland, which are usually renewed annually. In addition, as of December 31, 2013, the Group has a long-term contract with EmFrontier Inc., one of its affiliated companies, to be provided with maintenance service for the Group's information system.

(5) Pending litigations

The Company is named as a defendant in various legal actions arising from normal business matters, including product liability. As of December 31, 2013, the outcome of these matters is uncertain. The estimated loss of ₩6,859,450 thousand (USD 6,500 thousand) expected with respect to the litigations is provided as product liability allowance.

The Company recognized the principal and interest of two cases regarding compensation for employee's invention which was decided in the first trial as other provisions. Both the Company and plaintiff lodged an appeal against the verdict. The litigation values of the two cases amount to ₩3,250,000 thousand.

Additionally, five outstanding cases as a plaintiff amount to ₩1,741,210 thousand and 18 outstanding cases as a defendant amount to ₩4,759,659 thousand, including ordinary wage cases. The results of these matters are unpredictable at the end of the reporting period.

38. INCORPORATION BY SPIN-OFF:

The Group was spun off from Hankook Tire Worldwide Co., Ltd. (the former Hankook Tire Co., Ltd.), to be incorporated as of September 1, 2012.

(1) General information of spin-off

Under the second and the eleventh of Article 530 of the Commercial Law, the tire business unit has been spun off and incorporated by the method of allotting newly issued shares of the new company to the shareholders in proportion to the percentage of ownership.

Hence, newly issued shares of the new company have been allotted by the ratio of 0.8139505 per share for the shareholders registered on the stockholders' list. The ratio is based on the annual settlement of accounts for the year ended December 31, 2011.

(2) The amount of assets and liabilities transferred to the new company

The amount of assets and liabilities transferred to the new company is determined by the spin-off plan approved by the extraordinary general meeting of shareholders on July 27, 2012. Following that, increase and decrease in the assets and liabilities are adjusted to the plan until the date of spin-off.

(3) Accounting method of spin-off

- 1) The assets and liabilities transferred to the new company are recognized at the consolidated book value of the former company before spin-off.
- 2) Directly associated deferred income tax assets (liabilities) are transferred to the new company along with the transferred assets and liabilities.
- 3) The surplus consolidated book value of the transferred net asset over the equity, increased by spin-off, is recognized as other paid-in capital.

(4) Succession of rights and obligations

All of the positive and negative property, rights and duties including those under public law and economically valuable fact relevance (licensing, labor relationship, contractual relationship, litigations, etc.) about the tire business unit belong to the new company in principle. The others should belong to the surviving company consequently.

(5) Liabilities of companies derived from spin-off

Under the first clause of third of Article 530 of the Commercial Law, the spin-off has been implemented by the special resolution at the shareholders' meeting. According to the first clause of ninth of Article 530, the new and surviving companies are severally and jointly liable for the debts incurred before spin-off.

- (6) Components of the assets and liabilities transferred to the Group, which are associated with the tire business unit, are as follows (Korean won in thousands):

	<u>September 1, 2012</u>	
Assets	₩	7,412,033,750
Liabilities		<u>4,346,367,355</u>
Net assets	₩	<u>3,065,666,395</u>

- (7) Application of accounting policies

The Group's accounting policies are the same as the policies that existed before spin-off.

39. SUBSEQUENT EVENTS:

- (1) The Group incorporated a new subsidiary by the resolution of the management committee as of February 18, 2014.

	<u>Capital stock</u>
Hankook Tire de Colombia Ltda.	USD 99,900

- (2) Hankook Tire America Corp. established its subsidiaries after the reporting period and the subsidiaries belong to the scope of consolidation.

	<u>New companies</u>
Hankook Tire Manufacturing Tennessee LP, Hankook Tire America Holdings I, LLC, Hankook Tire America Holdings II, LLC	