# HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

## ATTACHMENT: INDEPENDENT AUDITOR'S REPORT

HANKOOK TIRE CO., LTD.

Deloitte.

**Deloitte Anjin LLC**
9Fl., One IFC,
10, Gukjegeumyung-ro,
Youngdeungpo-gu, Seoul
150-945, Korea

Tel: +82 (2) 6676 1000
Fax: +82 (2) 6674 2114
www.deloitteanjin.co.kr

# INDEPENDENT AUDITORS' REPORT

English Translation of Independent Auditors' Report Originally Issued in Korean on March 19, 2015

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

**Report on the Consolidated Financial Statements**
We have audited the accompanying consolidated financial statements of Hankook Tire Co., Ltd. and its subsidiaries (collectively, the "Group"), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, respectively, and the 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 years ended December 31, 2014 and 2013, respectively, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Korean International Financial Reporting Standards ("K-IFRS") and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2014 and 2013, respectively, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013, respectively, in accordance with K-IFRS.

**Others**

We conducted our audit of consolidated financial statements of the Group as of December 31, 2013, in accordance with the former KSAs, known as auditing standards generally accepted in Korea.

Deloitte Anjin LLC

March 19, 2015

Notice to Readers

This report is effective as of March 19, 2015, 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 YEARS ENDED
# DECEMBER 31, 2014 AND 2013

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. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2014 AND 2013

| ASSETS | Notes | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| | | (Korean won in thousands) | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 35,36 | ₩ 725,184,392 | ₩ 682,413,905 |
| Short-term financial assets | 4,36 | 446,827,604 | 482,458,755 |
| Trade and other accounts receivable | 5,15,34,36 | 1,206,949,830 | 1,190,996,049 |
| Inventories | 8,37 | 1,446,023,588 | 1,472,464,615 |
| Other financial assets | 7,36 | 9,066,672 | 2,291,371 |
| Other current assets | 9 | 45,733,337 | 121,619,520 |
| TOTAL CURRENT ASSETS | | 3,879,785,423 | 3,952,244,215 |
| NON-CURRENT ASSETS: | | | |
| Long-term financial assets | 4,36 | 64,114 | 71,909 |
| AFS financial assets | 6,36 | 3,490,327 | 3,079,761 |
| Property, plant and equipment | 11,37 | 4,020,353,224 | 3,497,977,900 |
| Investment property | 12 | 108,575,912 | 108,178,641 |
| Intangible assets | 13 | 132,089,861 | 124,836,109 |
| Other financial assets | 7,36 | 16,627,700 | 15,044,366 |
| Other non-current assets | 9 | 60,987,478 | 195,310 |
| Deferred tax assets | 30 | 98,108,130 | 75,085,180 |
| TOTAL NON-CURRENT ASSETS | | 4,440,296,746 | 3,824,469,176 |
| TOTAL ASSETS | | ₩ 8,320,082,169 | ₩ 7,776,713,391 |

(Continued)

HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

AS OF DECEMBER 31, 2014 AND 2013

| LIABILITIES AND SHAREHOLDERS' EQUITY | Notes | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| | | (Korean won in thousands) | |
| CURRENT LIABILITIES: | | | |
| Trade and other accounts payable | 14,34,36 | ₩ 990,792,850 | ₩ 924,983,718 |
| Short-term borrowings and current portions of long-term financial liabilities | 15,34, 36,37 | 1,844,116,273 | 1,755,566,062 |
| Current tax liabilities | | 102,685,164 | 147,406,861 |
| Other financial liabilities | 16,36 | 60,954 | - |
| Other current liabilities | 19 | 131,689,041 | 114,300,955 |
| TOTAL CURRENT LIABILITIES | | 3,069,344,282 | 2,942,257,596 |
| NON-CURRENT LIABILITIES: | | | |
| Long-term borrowings and debentures | 15,34, 36,37 | 579,491,514 | 822,888,553 |
| Retirement benefit obligation | 17 | 47,455,105 | 16,859,440 |
| Other provisions | 18,37 | 63,258,140 | 65,895,353 |
| Other financial liabilities | 16,36 | 4,773,505 | 4,676,639 |
| Other non-current liabilities | 19 | 39,286,445 | - |
| TOTAL NON-CURRENT LIABILITIES | | 734,264,709 | 910,319,985 |
| TOTAL LIABILITIES | | 3,803,608,991 | 3,852,577,581 |
| 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 | 1,542,406,544 | 909,195,718 |
| Other equity | 23 | (85,732,057) | (45,974,035) |
| Non-controlling interest | | 5,483,436 | 6,598,872 |
| TOTAL SHAREHOLDERS' EQUITY | | 4,516,473,178 | 3,924,135,810 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | ₩ 8,320,082,169 | ₩ 7,776,713,391 |

(Concluded)

See accompanying notes to consolidated financial statements.

HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | Notes | 2014 | 2013 |
|---|---|---|---|
| | | (Korean won in thousands) | |
| SALES | 24,33,34 | ₩ 6,680,847,701 | ₩ 7,069,237,653 |
| COST OF SALES | 24,31,34 | (4,280,800,825) | (4,710,850,601) |
| GROSS PROFIT | | 2,400,046,876 | 2,358,387,052 |
| Selling expenses | 25,31 | (648,791,256) | (642,388,784) |
| Administrative expenses | 25,31 | (564,324,786) | (561,055,584) |
| Research and development expenses | 31 | (155,294,271) | (123,936,188) |
| OPERATING INCOME | | 1,031,636,563 | 1,031,006,496 |
| Financial income | 26 | 84,826,830 | 58,053,028 |
| Financial expense | 27 | (137,602,075) | (106,408,953) |
| Other operating income | 28 | 196,394,570 | 211,594,395 |
| Other operating expense | 29 | (239,621,395) | (204,569,517) |
| INCOME BEFORE INCOME TAX EXPENSE | | 935,634,493 | 989,675,449 |
| INCOME TAX EXPENSE | 30 | (236,339,304) | (254,643,563) |
| NET INCOME | | ₩ 699,295,189 | ₩ 735,031,886 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | ₩ (57,416,749) | ₩ 17,159,375 |
| Items not to be reclassified subsequently to profit or loss: | | | |
| Remeasurements on retirement benefit obligation | 22 | (23,475,482) | 12,178,024 |
| Tax effects on other comprehensive income (loss) | 22,30 | 5,657,072 | (2,941,183) |
| | | (17,818,410) | 9,236,841 |
| Items to be reclassified subsequently to profit or loss: | | | |
| Gains on valuation of AFS financial assets | 23 | ₩ 164,483 | ₩ 647,066 |
| Loss on valuation of foreign exchange forward contract | 23 | - | 303,164 |
| Exchange differences on translating foreign operations | 23 | (42,346,903) | 7,546,758 |
| Tax effects on other comprehensive income (loss) | 23,30 | 2,584,081 | (574,454) |
| | | ₩ (39,598,339) | ₩ 7,922,534 |
| COMPREHENSIVE INCOME | | ₩ 641,878,440 | ₩ 752,191,261 |
| NET INCOME ATTRIBUTABLE TO: | | | |
| Owners of the Company | | ₩ 700,360,439 | ₩ 737,926,606 |
| Non-controlling interests | | (1,065,250) | (2,894,720) |

(Continued)

HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | Notes | 2014 | 2013 |
|---|---|---|---|
| | | (Korean won in thousands, except for income per share data) | |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Owners of the Company | | ₩ 642,993,876 | ₩ 755,008,584 |
| Non-controlling interests | | (1,115,436) | (2,817,323) |
| NET INCOME PER SHARE (Korean won) | | | |
| Basic and diluted income per share | 32 | 5,655 | 5,958 |

(Concluded)

See accompanying notes to consolidated financial statements.

HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Korean won in thousands)

| | Capital stock | Other paid-in capital: Additional paid-in capital | Other paid-in capital: Treasury stocks | Retained earnings | Other equity | Controlling equity | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|
| 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 | - | - | - | (49,541,072) | - | (49,541,072) | - | (49,541,072) |
| Comprehensive income: | - | - | - | 747,169,844 | 7,838,739 | 755,008,583 | (2,817,323) | 752,191,260 |
| Net income | - | - | - | 737,926,606 | - | 737,926,606 | (2,894,721) | 735,031,885 |
| 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 |
| Remeasurements of retirement benefit plan | - | - | - | 9,243,238 | - | 9,243,238 | (6,397) | 9,236,841 |
| As of December 31, 2013 | ₩ 61,937,535 | ₩ 2,993,465,738 | ₩ (1,088,018) | ₩ 909,195,718 | ₩ (45,974,035) | ₩ 3,917,536,938 | ₩ 6,598,872 | ₩ 3,924,135,810 |
| As of January 1, 2014 | ₩ 61,937,535 | ₩ 2,993,465,738 | ₩ (1,088,018) | ₩ 909,195,718 | ₩ (45,974,035) | ₩ 3,917,536,938 | ₩ 6,598,872 | ₩ 3,924,135,810 |
| Annual dividends | - | - | - | (49,541,072) | - | (49,541,072) | - | (49,541,072) |
| Comprehensive income: | - | - | - | 682,751,898 | (39,758,022) | 642,993,876 | (1,115,436) | 641,878,440 |
| Net income | - | - | - | 700,360,439 | - | 700,360,439 | (1,065,250) | 699,295,189 |
| Gain on valuation of AFS financial assets, net | - | - | - | - | 161,170 | 161,170 | 521 | 161,691 |
| Exchange differences on translating foreign operations | - | - | - | - | (39,919,192) | (39,919,192) | 159,162 | (39,760,030) |
| Remeasurements of retirement benefit plan | - | - | - | (17,608,541) | - | (17,608,541) | (209,869) | (17,818,410) |
| As of December 31, 2014 | ₩ 61,937,535 | ₩ 2,993,465,738 | ₩ (1,088,018) | ₩ 1,542,406,544 | ₩ (85,732,057) | ₩ 4,510,989,742 | ₩ 5,483,436 | ₩ 4,516,473,178 |

See accompanying notes to consolidated financial statements.

HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| | (Korean won in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash generated from operating activities | ₩ | ₩ |
| Net income | 699,295,189 | 735,031,886 |
| Adjustments: | | |
| Income tax expense | 236,339,304 | 254,643,563 |
| Interest income | (21,321,386) | (17,173,974) |
| Interest expense | 49,886,950 | 62,074,671 |
| Dividend income | (55,410) | (83,455) |
| Gain on foreign currency translation | (71,092,974) | (64,990,846) |
| Loss on foreign currency translation | 109,709,447 | 61,876,926 |
| Gain on disposal of AFS securities | (703) | - |
| Loss on disposal of AFS securities | 14,995 | 17,136 |
| Loss on valuation of inventories | (2,186,981) | (699,182) |
| Loss on abandonment of inventories | 2,389,127 | 2,459,366 |
| Loss on disposal of trade receivable | 699,375 | 569,578 |
| Provision (reversal of allowance) for doubtful accounts | (3,898,895) | 2,071,782 |
| Other provision for doubtful accounts | 590,694 | - |
| Gain on disposal of property, plant and equipment | (2,329,879) | (1,937,637) |
| Loss on disposal of property, plant and equipment | 8,293,686 | 13,800,109 |
| Gain on disposal of intangible assets | (1,555) | - |
| Loss on property abandoned | 1,515 | 114,557 |
| Loss on impairment of property, plant and equipment | 2,977,847 | - |
| Loss on disposition of investment real estate | 507,932 | - |
| Loss on disposal of intangible assets | 471 | - |
| Casualty loss | 12,455,157 | - |
| Depreciation of property, plant and equipment | 416,866,761 | 405,901,826 |
| Depreciation of investment property | 975,615 | 699,695 |
| Amortization of intangible assets | 11,151,183 | 6,387,846 |
| Provision for other allowance | (172,589) | 219,692 |
| Sales damage expense | 19,204,682 | 23,504,703 |
| Employee benefits | 2,639,317 | 739,873 |
| Provision for severance benefits | 47,148,544 | 45,910,562 |
| Gain on valuation of derivatives | (6,131,606) | - |
| Loss on valuation of derivatives | 60,846 | - |
| | 814,721,470 | 796,106,791 |
| Changes in operating assets and liabilities: | | |
| Increase in trade receivables | (84,648,733) | (191,033,368) |
| Decrease (increase) in other accounts receivables | 12,610,909 | (3,679,474) |
| Increase in accrued income | (13,445,236) | (2,824,742) |
| Decrease (increase) in advance payments | 27,526,976 | (20,930,614) |
| Increase in prepaid expenses | (18,171,928) | (24,993,157) |
| Increase in deposits of acceptances and guarantees | (599,476) | (484,670) |
| Decrease (increase) in inventories | 4,539,228 | (71,465,013) |
| Decrease (increase) in leasehold deposits provided | 495,422 | (828,002) |
| Decrease (increase) in other current assets | (2,825,813) | 1,771,164 |
| Decrease (increase) in other non-current assets | (717,092) | 2,300,402 |

(Continued)

HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| | (Korean won in thousands) | |
| Increase in trade payables | ₩ 47,818,072 | ₩ 11,080,815 |
| Increase in other accounts payable | 6,675,953 | 25,885,984 |
| Decrease in accrued expenses | (12,641,366) | (3,449,554) |
| Increase (decrease) in advances from customers | (14,212,468) | 25,832,978 |
| Increase in deposits provided | 22,373,950 | 9,393,281 |
| Increase (decrease) in unearned revenue | 14,451,360 | (12,106,755) |
| Increase (decrease) in other current liabilities | 12,069,166 | (1,204,552) |
| Decrease in long-term debts for employees | (1,081,182) | (1,179,919) |
| Payment of severance indemnities | (16,546,223) | (10,569,686) |
| Increase in plan assets | (23,402,287) | (22,527,275) |
| Increase in rental deposits | 96,867 | 824,875 |
| Compensation for sales damages | (22,973,655) | (22,075,697) |
| Increase in other non-current liabilities | 301,528 | - |
| | (62,306,028) | (312,262,979) |
| Interest revenue received | 26,578,524 | 18,061,687 |
| Interest expense paid | (34,520,354) | (32,088,547) |
| Dividend income received | 55,410 | 83,455 |
| Income tax paid | (296,779,540) | (157,368,682) |
| Net cash provided by operating activities: | 1,147,044,671 | 1,047,563,611 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Net change in short-term financial assets | 37,231,911 | (290,543,573) |
| Acquisition of AFS securities | (20,297,903) | (403,035) |
| Disposal of AFS securities | 20,276,331 | 385,899 |
| Acquisition of property, plant and equipment | (936,641,393) | (383,983,988) |
| Disposal of property, plant and equipment | 10,693,379 | 33,408,555 |
| Acquisition of intangible assets | (14,505,626) | (12,606,277) |
| Disposal of intangible assets | 1,555 | 288,103 |
| Net disposal of other financial assets | (1,543,342) | 830,521 |
| Net cash used in investing activities: | (904,785,088) | (652,623,795) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from short-term borrowings | 129,697,516 | 204,857,224 |
| Proceeds from long-term borrowings | 194,526,129 | 78,251,242 |
| Issuance of debentures | 81,504,058 | 55,323,555 |
| Repayment of short-term borrowings | (382,996,872) | (493,685,894) |
| Repayment of current portion of long-term borrowings | (94,575,134) | - |
| Repayment of long-term borrowings | (74,483,601) | - |
| Dividends payment | (49,532,672) | (49,532,419) |
| Net cash used in financing activities: | (195,860,576) | (204,786,292) |

(Continued)

HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| | (Korean won in thousands) | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | ₩ 46,399,007 | ₩ 190,153,524 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | 682,413,905 | 485,612,512 |
| CASH AND CASH EQUIVALENTS ACQUIRED BY SPIN-OFF | | - |
| CHANGES IN CASH AND CASH EQUIVALENTS DUE TO FOREIGN CURRENCY TRANSLATION | (3,628,520) | 6,647,869 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | ₩ 725,184,392 | ₩ 682,413,905 |

(Concluded)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

## 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.

As of December 31, 2014 and 2013, the Company's shareholders are as follows:

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Number of shares owned | Percentage of ownership (%) | Number of shares owned | Percentage of ownership (%) |
| Hankook Tire Worldwide Co., Ltd. | 30,962,895 | 25.00 | 30,962,895 | 25.00 |
| Yang Rai Cho | 13,007,897 | 10.50 | 13,007,897 | 10.50 |
| Hyun Bum Cho | 2,561,241 | 2.07 | 2,561,241 | 2.07 |
| Hyun Shick Cho | 799,241 | 0.65 | 799,241 | 0.65 |
| Others (*) | 76,543,795 | 61.78 | 76,543,795 | 61.78 |
| | 123,875,069 | 100.00 | 123,875,069 | 100.00 |

(*) Including 22,388 shares in treasury stock as of December 31, 2014.

The Group's consolidated financial statements for annual shareholders' meeting have been confirmed by the board of directors on March 2, 2015.

## 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") for the annual period beginning on September 1, 2013. 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 1032 *Financial Instruments: Presentation*

The amendments to K-IFRS 1032 clarify the requirement for the offset presentation of financial assets and financial liabilities: the right to offset must not be conditional upon the occurrence of future events and can be exercised anytime during the contract periods. The right to offset is executable even in the case of default or insolvency. The application of the enactments has no material impact on the Group's consolidated financial statements.

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

The amendments introduced an exception to the principle in K-IFRS 1110 *Consolidated Financial Statements* which required the consolidation of all subsidiaries. If a subsidiary meets definition of an investment entity, the reporting entity measures the subsidiary at fair value through profit or loss (FVTPL) instead of consolidation. Also, the consequential amendments have been made to K-IFRS 1112, *Disclosure of Interests in Other Entities* and K-IFRS 1027 *Separate Financial Statements* to introduce new disclosure requirements for investment entities. The application of the enactments has no material impact on the Group's consolidated financial statements.

Amendments to K-IFRS 1036 *Impairment of Assets*

The amendments introduced disclosure requirements of recoverable amount when the recoverable amount of an asset or cash-generating unit (CGU) is measured at fair value less costs of disposal. The application of the enactments has no material impact on the Group's consolidated financial statements.

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

The amendments permit the Group to use hedge accounting when, as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties and when meeting certain criteria. The application of the enactments has no material impact on the Group's consolidated financial statements.

Enactment of K-IFRS 2121 *Levies*

The enactment defines that the obligating event giving rise to the recognition of a liability to pay a levy is the activity that triggers the payment of the levy in accordance with the related legislation. The application of the enactments has no material impact on the Group's consolidated financial statements.

2) New and revised IFRSs issued 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 1019 *Employee Benefits*

The amendments permit the Group to recognize amount of contributions as a reduction in the service cost in which the related service is rendered if the amounts of the contributions are independent of the number of years of service. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Amendments to K-IFRS 1016 *Property, Plant and Equipment*

The amendments to K-IFRS 1016 prohibit the Group from using a revenue-based depreciation method for items of property, plant and equipment. The amendments are effective for the annual periods beginning on or after January 1, 2016.

Amendments to K-IFRS 1038 *Intangible Assets*

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. The amendments to K-IFRS 1038 do not allow presumption that revenue is an appropriate basis for the amortization of an intangible asset, which the presumption can only be limited when the intangible asset expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to K-IFRS 1111 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to K-IFRS 1111 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in K-IFRS 1103 *Business Combinations*. A joint operator is also required to disclose the relevant information required by K-IFRS 1103 and other standards for business combinations. The amendments to K-IFRS 1111 are effective for the annual periods beginning on or after January 1, 2016.

Annual Improvements to K-IFRS 2010-2012 Cycle

The amendments to K-IFRS 1102 *Share-Based Payment* (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definition in for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition.' The amendments to K-IFRS 1103 clarify the classification and measurement of the contingent consideration in business combination. The amendments to K-IFRS 1108 clarify that a reconciliation of the total of the reportable segments' assets should only be provided if the segment assets are regularly provided to the chief operating decision maker. The amendments are effective for the annual periods beginning on or after July 1, 2014.

Annual Improvements to K-IFRS 2011-2013 Cycle

The amendments to K-IFRS 1103 clarify the scope of the portfolio exception for measuring the fair values of the group of financial assets and financial liabilities on a net basis and include all contracts that are within the scope the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself. The amendments to K-IFRS 1113 *Fair Value Measurements* and K-IFRS 1040 *Investment Properties* exist and these amendments are effective for the annual periods beginning on or after July 1, 2014.

The Group does not anticipate that the above-mentioned enactments and amendments will have any significant effect on its 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 statements 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 in 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 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, 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 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, 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. 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 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 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 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) 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 CGUs (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently, when there is an indication that the unit may be impaired. If the recoverable amount of the CGU 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 CGU, 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).

(6) 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 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.

(7) 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 of the 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.

(8) 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 statements 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.

(9) Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Korean won, which are 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 Korean won, 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.

(10) 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.

(11) 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.

(12) 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 consolidated statements 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 statements 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.

(13) 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. 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.

(14) 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 the 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.

(15) 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 the 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.

(16) 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 a 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, and 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.

(17) 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 CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) 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 CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(18) Inventories

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

| | Costing method |
|---|---|
| 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.

(19) 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 pretax 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.

(20) 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 FVTPL 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 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 FVTPL.

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 reorganization; 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.

(21) 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 costs 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 derecognizes financial liabilities when the Group’s obligation are discharged, canceled 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.

(22) 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.

5) Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss and included in the ‘other gains and losses.’

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss in the same way as exchange differences relating to the foreign operation.

(23) 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 provide 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 CGUs 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 CGU 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 postretirement 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 postretirement benefit plan.

## 4. RESTRICTED FINANCIAL ASSETS:

Details of restricted financial assets as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| Account | December 31, 2014 | December 31, 2013 | Descriptions |
|---|---|---|---|
| Short-term financial assets | ₩ - | ₩ 33,770,715 | Pledged |
| Long-term financial assets | 61,656 | 15,500 | Guarantee deposits for checking accounts |
| Total | ₩ 61,656 | ₩ 33,786,215 | |

## 5. TRADE AND OTHER RECEIVABLES:

(1) Details of trade and other accounts receivable as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Less: Allowance for bad debt | Net amount | Gross amount | Less: Allowance for bad debt | Net amount |
| Trade receivables | ₩ 1,080,494,197 | ₩ (9,701,015) | ₩ 1,070,793,182 | ₩ 1,071,223,585 | ₩ (14,008,947) | ₩ 1,057,214,638 |
| Other accounts receivable | 113,077,425 | (361,462) | 112,715,963 | 125,400,186 | (679,943) | 124,720,243 |
| Accrued income | 23,440,685 | - | 23,440,685 | 9,061,168 | - | 9,061,168 |
| Subtotal | 1,217,012,307 | (10,062,477) | 1,206,949,830 | 1,205,684,939 | (14,688,890) | 1,190,996,049 |
| Default note receivables | 180 | (180) | - | 180 | (180) | - |
| Subtotal | 180 | (180) | - | 180 | (180) | - |
| Total | ₩ 1,217,012,487 | ₩ (10,062,657) | ₩ 1,206,949,830 | ₩ 1,205,685,119 | ₩ (14,689,070) | ₩ 1,190,996,049 |

(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 30–120 days. 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 that 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 determined to be recoverable, and accrued interest on bonds of credit period elapsed minutes and 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, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | 3 months or less | 3–6 months | 6–12 months | More than 1 year | Total |
| Trade receivables | ₩ 3,129,511 | ₩ - | ₩ - | ₩ 36,593 | ₩ 3,166,104 |
| Other accounts receivable | 24,605 | 850 | 4,631 | 980,941 | 1,011,027 |
| Total | ₩ 3,154,116 | ₩ 850 | ₩ 4,631 | ₩ 1,017,534 | ₩ 4,177,131 |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | 3 months or less | 3–6 months | 6–12 months | More than 1 year | Total |
| Trade receivables | ₩ 3,158,206 | ₩ 4,103 | ₩ - | ₩ 113,379 | ₩ 3,275,688 |
| Other accounts receivable | 9,209 | - | 624 | 624 | 10,457 |
| Total | ₩ 3,167,415 | ₩ 4,103 | ₩ 624 | ₩ 114,003 | ₩ 3,286,145 |

2) Aging analyses of the trade and other accounts receivable that are impaired as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | 3 months or less | 3–6 months | 6–12 months | More than 1 year | Total |
| Trade receivables | ₩ 222,563,005 | ₩ 50,673,651 | ₩ 7,638,029 | ₩ 2,972,177 | ₩ 283,846,862 |
| Other accounts receivable | 450,668 | 165,479 | 440,754 | 412,542 | 1,469,443 |
| Default note receivables | - | - | - | 180 | 180 |
| Total | ₩ 223,013,673 | ₩ 50,839,130 | ₩ 8,078,783 | ₩ 3,384,899 | ₩ 285,316,485 |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | 3 months or less | 3–6 months | 6–12 months | More than 1 year | Total |
| 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 |
| Default note receivables | - | - | - | 180 | 180 |
| Total | ₩ 162,017,800 | ₩ 58,074,783 | ₩ 7,142,761 | ₩ 29,551,454 | ₩ 256,786,798 |

3) Changes in allowance for trade and other accounts receivable for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Trade receivables | Other accounts receivable | Default note receivables | Total |
| Beginning balance | ₩ 14,008,947 | ₩ 679,943 | ₩ 180 | ₩ 14,689,070 |
| Impairment loss | 1,466,609 | 590,694 | - | 2,057,303 |
| Write-offs | (289,527) | (682,266) | - | (971,793) |
| Reversal of allowance for bad debts | (5,729,289) | (226,910) | - | (5,956,199) |
| Foreign currency translation | 244,275 | - | - | 244,275 |
| Ending balance | ₩ 9,701,015 | ₩ 361,461 | ₩ 180 | ₩ 10,062,656 |

| | 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 |

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. AFS SECURITIES:

Details of AFS securities as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Debt instrument: | | |
| Government bonds | ₩ 7,280 | ₩ - |
| Equity instrument: | | |
| Listed securities | 2,478,492 | 2,075,206 |
| Unlisted securities | 1,004,555 | 1,004,555 |
| Total | ₩ 3,490,327 | ₩ 3,079,761 |

## 7. OTHER FINANCIAL ASSETS:

Details of other financial assets as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Loans | ₩ 542,393 | ₩ 6,030,359 | ₩ 589,803 | ₩ 4,495,299 |
| Deposits provided | 2,378,957 | 10,597,341 | 1,701,568 | 10,549,067 |
| Foreign exchange forward contracts | 6,145,322 | - | - | - |
| Total | ₩ 9,066,672 | ₩ 16,627,700 | ₩ 2,291,371 | ₩ 15,044,366 |

## 8. INVENTORIES:

Details of inventories as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Acquisition cost | Inventory valuation | Inventory valuation reserve | Foreign currency translation variance | Loss on valuation (reversal of reserve) |
| Finished goods | ₩ 720,610,151 | ₩ 715,141,535 | ₩ 5,468,616 | ₩ (380,149) | ₩ 1,745,712 |
| Work in process | 36,724,963 | 36,724,963 | - | - | - |
| Raw materials | 287,305,385 | 285,555,361 | 1,750,024 | - | (3,932,693) |
| Supplies | 27,471,227 | 27,092,043 | 379,184 | - | - |
| Materials in transit | 381,509,686 | 381,509,686 | - | - | - |
| Total | ₩ 1,453,621,412 | ₩ 1,446,023,588 | ₩ 7,597,824 | ₩ (380,149) | ₩ (2,186,981) |

| | 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 | ₩ 1,482,629,569 | ₩ 1,472,464,615 | ₩ 10,164,954 | ₩ 525,637 | ₩ (699,182) |

## 9. OTHER ASSETS:

Details of other assets as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Advance payments | ₩ 11,033,921 | ₩ - | ₩ 42,933,416 | ₩ - |
| Prepaid expenses | 34,204,013 | 60,823,177 | 77,776,684 | - |
| Others | 495,403 | 164,301 | 909,420 | 195,310 |
| Total | ₩ 45,733,337 | ₩ 60,987,478 | ₩ 121,619,520 | ₩ 195,310 |

**10. SUBSIDIARIES:**

(1) Details of subsidiaries as of December 31, 2014 and 2013, are as follows:

| Subsidiaries | Primary business | Location | December 31, 2014 Percentage of ownership (%) | December 31, 2014 Reporting date |
|---|---|---|---|---|
| Daehwa Engineering & Machinery Co., Ltd | Manufacture of tire and tube manufacturing machine | Korea | 95.00 | Dec.31 |
| Hankook Tire America Corp. | Sales of tires | USA | 100.00 | Dec.31 |
| Hankook Tyre U.K. Ltd. | Sales of tires | United Kingdom | 100.00 | Dec.31 |
| Jiangsu Hankook Tire Co., Ltd. | Manufacture and sales of tires | China | 100.00 | Dec.31 |
| Hankook Tire China Co., Ltd. | Manufacture and sales of tires | China | 100.00 | Dec.31 |
| Shanghai Hankook Tire Sales Co., Ltd | Sales of tires | China | 100.00 | Dec.31 |
| Hankook Tire Netherlands B.V. | Sales of tires | Netherlands | 100.00 | Dec.31 |
| Hankook Tire Japan Corp. | Sales of tires | Japan | 100.00 | Dec.31 |
| Hankook Tire Canada Corp. | Sales of tires | Canada | 100.00 | Dec.31 |
| Hankook Reifen Deutschland GmbH | Sales of tires | Germany | 100.00 | Dec.31 |
| Hankook Tire France SARL | Sales of tires | France | 100.00 | Dec.31 |
| Hankook Espana S.A. | Sales of tires | Spain | 100.00 | Dec.31 |
| Hankook Tyre Australia Pty., Ltd. | Sales of tires | Australia | 100.00 | Dec.31 |
| Hanyang Tire Sales Co., Ltd. | Sales of tires | Korea | 100.00 | Dec.31 |
| Hankook Tire Europe Holdings B.V. | Building European governance | Netherlands | 100.00 | Dec.31 |
| Hankook Tire Hungery Ltd. | Manufacture and sales of tires | Hungary | 100.00 | Dec.31 |
| Hankook Tire Budapest Kereskedelmi Kft | Sales of tires | Hungary | 100.00 | Dec.31 |
| Hankook Tire Italia S.R.L | Sales of tires | Italy | 100.00 | Dec.31 |
| Hankook Tire Europe GmbH | Support to sales of tires | Germany | 100.00 | Dec.31 |
| Hankook Tire Rus LLC | Sales of tires | Russia | 100.00 | Dec.31 |
| Hankook Tire DE Mexico, S.A. DE C.V. | Sales of tires | Mexico | 100.00 | Dec.31 |
| Chongqing Hankooktire Co., Ltd. | Manufacture and sales of tires | China | 100.00 | Dec.31 |
| PT Hankook Tire Indonesia | Manufacture and sales of tires | Indonesia | 99.99 | Dec.31 |
| MK Mold (Jiaxing) Co., Ltd. | Manufacture and sales of tire mold | China | 50.10 | Dec.31 |
| MK Technology Corp. (formerly MKT Holdings Co., Ltd.) | Manufacture and sales of tire mold | Korea | 50.10 | Dec.31 |
| Hankook Tire Singapore PTE., Ltd. | Trade and consulting | Singapore | 100.00 | Dec.31 |
| Hankook Tire Malaysia SDN.BHD. | Sales of tires | Malaysia | 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 |
| Hankook Tire de Colombia Ltda. | Sales of tires | Colombia | 100.00 | Dec.31 |
| Hankook Tire Manufacturing Tennessee LP | Manufacture and sales of tires | USA | 100.00 | Dec.31 |
| Hankook Tire America Holdings I, LLC | Building American governance | USA | 100.00 | Dec.31 |
| Hankook Tire America Holdings II, LLC | Building American governance | USA | 100.00 | Dec.31 |
| MK Technology (CHONGQING)Mould Co.,Ltd. | Manufacture and sales of tire mold | China | 50.10 | Dec.31 |
| Hankook Tire Ceska Republika s.r.o. | Sales of tires | Czech | 100.00 | Dec.31 |
| Daewoo Securities Co., Ltd. Specified Money Trusts and other 5 more | Trust Accounts | Korea | - | Dec.31 |

| Subsidiaries | Primary business | Location | December 31, 2013 Percentage of ownership (%) | Reporting date |
|---|---|---|---|---|
| Daehwa Engineering & Machinery Co., Ltd | Manufacture of tire and tube manufacturing machine | Korea | 95.00 | Dec.31 |
| Hankook Tire America Corp. | Sales of tires | USA | 100.00 | Dec.31 |
| Hankook Tyre U.K. Ltd. | Sales of tires | United Kingdom | 100.00 | Dec.31 |
| Jiangsu Hankook Tire Co., Ltd. | Manufacture and sales of tires | China | 100.00 | Dec.31 |
| Hankook Tire China Co., Ltd. | Manufacture and sales of tires | China | 100.00 | Dec.31 |
| Shanghai Hankook Tire Sales Co., Ltd | Sales of tires | China | 100.00 | Dec.31 |
| Hankook Tire Netherlands B.V. | Sales of tires | Netherlands | 100.00 | Dec.31 |
| Hankook Tire Japan Corp. | Sales of tires | Japan | 100.00 | Dec.31 |
| Hankook Tire Canada Corp. | Sales of tires | Canada | 100.00 | Dec.31 |
| Hankook Reifen Deutschland GmbH | Sales of tires | Germany | 100.00 | Dec.31 |
| Hankook Tire France SARL | Sales of tires | France | 100.00 | Dec.31 |
| Hankook Espana S.A. | Sales of tires | Spain | 100.00 | Dec.31 |
| Hankook Tyre Australia Pty., Ltd. | Sales of tires | Australia | 100.00 | Dec.31 |
| Hanyang Tire Sales Co., Ltd. | Sales of tires | Korea | 100.00 | Dec.31 |
| Hankook Tire Europe Holdings B.V. | Building European governance | Netherlands | 100.00 | Dec.31 |
| Hankook Tire Hungery Ltd. | Manufacture and sales of tires | Hungary | 100.00 | Dec.31 |
| Hankook Tire Budapest Kereskedelmi Kft | Sales of tires | Hungary | 100.00 | Dec.31 |
| Hankook Tire Italia S.R.L | Sales of tires | Italy | 100.00 | Dec.31 |
| Hankook Tire Europe GmbH | Support to sales of tires | Germany | 100.00 | Dec.31 |
| Hankook Tire Rus LLC | Sales of tires | Russia | 100.00 | Dec.31 |
| Hankook Tire DE Mexico, S.A. DE C.V. | Sales of tires | Mexico | 100.00 | Dec.31 |
| Chongqing Hankooktire Co., Ltd. | Manufacture and sales of tires | China | 100.00 | Dec.31 |
| PT Hankook Tire Indonesia | Manufacture and sales of tires | Indonesia | 99.99 | Dec.31 |
| MKT Holdings Co., Ltd. | Manufacture and sales of tire mold | Korea | 50.10 | Dec.31 |
| MK Mold (Jiaxing) Co., Ltd. | Manufacture and sales of tire mold | China | 50.10 | Dec.31 |
| MK Technology Corp. | Manufacture and sales of tire mold | Korea | 50.10 | Dec.31 |
| Hankook Tire Polish Branch | Sales of tires | Poland | 100.00 | Dec.31 |
| Hankook Tire Singapore PTE., Ltd. | Trade and consulting | Singapore | 100.00 | Dec.31 |
| Hankook Tire Malaysia SDN.BHD. | Sales of tires | Malaysia | 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, 2014 and 2013, are as follows (Korean won in thousands):

| Subsidiaries | December 31, 2014 Assets | Liabilities | Sales | Net income |
|---|---|---|---|---|
| Hankook Tire America Corp. | ₩ 626,020,247 | ₩ 418,088,756 | ₩ 1,255,864,967 | ₩ 10,505,413 |
| Hankook Tire Canada Corp. | 53,052,648 | 39,716,151 | 147,307,095 | 1,960,219 |
| Hankook Tire Europe Holdings B.V. | 226,614,542 | 3,124 | - | (34,378) |
| Hankook Tire Netherlands B.V. | 86,550,659 | 72,623,541 | 241,077,467 | 1,692,817 |
| Hankook Tyre U.K. Ltd. | 127,128,758 | 114,349,933 | 222,310,909 | 3,081,714 |
| Hankook Reifen Deutschland GmbH | 212,049,664 | 188,657,789 | 459,044,442 | 3,997,301 |
| Hankook Tire France SARL | 54,171,520 | 47,560,150 | 133,373,437 | 1,410,165 |
| Hankook Tire Italia S.R.L | 82,895,580 | 75,939,595 | 144,565,792 | 852,501 |
| Hankook Espana S.A. | 51,415,079 | 44,968,366 | 124,683,300 | 1,436,972 |
| Hankook Tire Europe GmbH | 60,182,410 | 56,643,288 | 17,666,435 | 699,964 |
| Hankook Tire Hungery Ltd. | 1,195,676,355 | 629,783,158 | 767,285,610 | 157,200,445 |
| Hankook Tire Budapest Kereskedelmi Kft | 42,535,302 | 34,474,312 | 137,580,349 | 2,359,614 |
| Hankook Tire Rus LLC | 36,882,131 | 36,212,229 | 116,067,444 | 397,575 |
| Hankook Tire Japan Corp. | 22,044,132 | 22,673,345 | 52,776,598 | (3,016,664) |
| Hankook Tyre Australia Pty., Ltd. | 42,102,172 | 39,146,434 | 78,222,963 | 270,278 |
| Hankook Tire China Co., Ltd. | 1,474,152,130 | 533,412,233 | 821,688,129 | 123,355,016 |
| Jiangsu Hankook Tire Co., Ltd. | 808,311,868 | 315,053,705 | 689,844,676 | 36,922,579 |
| Shanghai Hankook Tire Sales Co., Ltd. | 367,600,210 | 384,681,692 | 1,059,142,166 | 4,184,138 |
| Daehwa Engineering & Machinery Co., Ltd | 117,701,091 | 73,418,656 | 169,565,673 | 8,049,582 |
| Hankook Tire DE Mexico, S.A. DE C.V. | 32,803,059 | 33,102,542 | 68,993,847 | (42,949) |
| Chongqing Hankooktire Co., Ltd. | 658,753,943 | 508,980,284 | 156,473,224 | (25,640,046) |
| Hanyang Tire Sales Co., Ltd. | 1,462,841 | 2,130,852 | 1,456,412 | (4,787) |
| PT Hankook Tire Indonesia | 685,394,734 | 390,056,857 | 258,480,321 | 15,325,227 |
| MK Mold (Jiaxing) Co., Ltd. | 24,969,975 | 13,203,206 | 21,969,356 | 4,256,675 |
| MK Technology Corp. (formerly MKT Holdings Co., Ltd.) | 80,471,654 | 33,255,013 | 63,211,191 | 14,156,927 |
| Hankook Tire Singapore PTE., Ltd. | 144,878,244 | 142,171,053 | 2,047,921 | 1,075,684 |
| Hankook Tire Malaysia SDN.BHD. | 6,930,073 | 7,163,409 | 21,432,276 | (525,363) |
| Hankook Tire Sweden AB | 17,903,816 | 17,660,821 | 26,574,758 | (745,287) |
| Beijing Jielun Trading Company Co., Ltd | 1,493,174 | 1,024,153 | 6,373,873 | (152,424) |
| Hankook Lastikleri A.S. | 13,330,683 | 12,284,301 | 45,269,295 | 1,048,819 |
| Hankook Tire Polska Sp. z o.o. | 29,036,632 | 27,557,347 | 57,553,526 | 883,476 |
| Hankook Tire Thailand Co., Ltd. | 7,371,776 | 4,063,693 | 6,479,481 | (180,335) |
| Hankook Tire de Colombia Ltda. | 222,794 | 82,338 | 1,955,490 | 53,974 |
| Hankook Tire Manufacturing Tennessee LP | 128,212,599 | 75,473,408 | - | (2,127,912) |
| Hankook Tire America Holdings I, LLC | 560,592 | - | - | - |
| Hankook Tire America Holdings II, LLC | 54,421,392 | - | - | - |
| MK Technology (CHONGQING) Mould Co., Ltd. | 913,833 | 60,866 | - | (17,928) |
| Hankook Tire Ceska Republika s.r.o. | 100,854 | - | - | - |

| 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 Hungery 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 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 |

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

| Subsidiaries | Operating Activities | Investing Activities | Financing Activities | Beginning | Foreign Currency Translation | Ending |
|---|---|---|---|---|---|---|
| Hankook Tire America Corp. | 9,515,307 | (54,428,492) | 35,471,714 | 14,879,152 | 200,581 | 5,638,262 |
| Hankook Tire Canada Corp. | (313,100) | (4,201,629) | - | 18,249,269 | (288,773) | 13,445,767 |
| Hankook Tire Europe Holdings B.V. | (32,332) | (1,110,070) | 1,072,003 | 103,755 | 26,966 | 60,322 |
| Hankook Tire Netherlands B.V. | 5,141,086 | (6,070,746) | - | 5,826,392 | (209,820) | 4,686,912 |
| Hankook Tyre U.K. Ltd. | (28,885,940) | (643,292) | 33,272,165 | 5,387,107 | (168,384) | 8,961,656 |
| Hankook Reifen Deutschland GmbH | (32,575,256) | 2,516,133 | 17,942,963 | 28,050,162 | (1,766,782) | 14,167,220 |
| Hankook Tire France SARL | 856,687 | 3,549,758 | - | 1,580,984 | (326,247) | 5,661,182 |
| Hankook Tire Italia S.R.L | (20,668,939) | 6,561,418 | 14,895,059 | 7,401,418 | (643,652) | 7,545,304 |
| Hankook Espana S.A. | (3,651,612) | 2,231,238 | - | 1,790,946 | (84,000) | 286,572 |
| Hankook Tire Europe GmbH | (377,684) | (34,507,375) | 19,768,084 | 19,754,770 | (951,050) | 3,686,745 |
| Hankook Tire Hungery Ltd. | 227,534,740 | (391,050,167) | 169,233,867 | 37,971,204 | (3,664,053) | 40,025,591 |
| Hankook Tire Budapest Kereskedelmi Kft | (6,540,387) | (4,804,935) | - | 14,824,652 | (1,248,535) | 2,230,795 |
| Hankook Tire Rus LLC | 5,301,007 | (151,918) | 482,096 | 324,498 | (1,760,690) | 4,194,993 |
| Hankook Tire Japan Corp. | (6,317,791) | 3,238 | 498,095 | 6,812,134 | (129,058) | 866,618 |
| Hankook Tyre Australia Pty., Ltd. | (2,293,936) | (230,378) | 1,898,640 | 2,673,923 | (83,159) | 1,965,090 |
| Hankook Tire China Co., Ltd. | 226,564,325 | (120,516,626) | (112,405,425) | 31,868,035 | 164,025 | 25,674,334 |
| Jiangsu Hankook Tire Co., Ltd. | 170,532,542 | (27,880,784) | (110,149,368) | 25,619,775 | 1,938,720 | 60,060,885 |
| Shanghai Hankook Tire Sales Co., Ltd. | (26,146,579) | 24,726,366 | - | 28,135,355 | 463,038 | 27,178,180 |
| Daehwa Engineering & Machinery Co., Ltd | 19,620,281 | (2,150,261) | - | 109,631 | - | 17,579,651 |
| Hankook Tire DE Mexico, S.A. DE C.V. | 1,801,310 | (347,395) | 395,750 | 2,081,269 | (20,611) | 3,910,323 |
| Chongqing Hankooktire Co., Ltd. | (56,432,207) | (201,489,381) | 306,446,215 | 6,558,273 | 2,653,320 | 57,736,220 |
| Hanyang Tire Sales Co., Ltd. | 4,764 | - | - | 26,500 | - | 31,264 |
| PT Hankook Tire Indonesia | 88,141,825 | (190,225,085) | 175,935,720 | 3,594,568 | (43,745) | 77,403,283 |
| MKT Holdings Co., Ltd. | (919,329) | - | (34,850,000) | 1,056,415 | 34,712,914 | - |
| MK Mold (Jiaxing) Co., Ltd. | 5,891,392 | (1,997,246) | (4,708,878) | 1,209,508 | (7,867) | 386,909 |
| Hankook Tire Polish Branch | (877,883) | - | - | 921,944 | (44,061) | - |
| MK Technology Corp. | 15,458,098 | (6,008,044) | 19,500,000 | 9,293,046 | (35,177,549) | 3,065,551 |
| Hankook Tire Singapore PTE., Ltd. | (2,263,456) | (925) | (2,669,455) | 8,874,272 | 153,771 | 4,094,207 |
| Hankook Tire Malaysia SDN.BHD. | (3,036,441) | 7,142 | 3,163,129 | 607,774 | (14,708) | 726,896 |
| Hankook Tire Sweden AB | (2,131,003) | (413,702) | 6,905,917 | 256,252 | (498,719) | 4,118,745 |
| Beijing Jielun Trading Company Co., Ltd | 115,482 | 164,092 | - | 437,007 | 18,068 | 734,649 |
| Hankook Lastikleri A.S. | (9,686,055) | (713,314) | 10,574,528 | 242,961 | (46,053) | 372,067 |
| Hankook Tire Polska Sp. z o.o. | (4,316,295) | (1,960,680) | - | 10,204,026 | (712,340) | 3,214,711 |
| Hankook Tire Thailand Co., Ltd. | 480,920 | (19,107) | - | 3,274,883 | 185,974 | 3,922,670 |
| Hankook Tire de Colombia Ltda. | (76,481) | (61,745) | 106,190 | - | 42,893 | 10,857 |
| Hankook Tire Manufacturing Tennessee LP | (1,706,706) | (32,180,532) | 82,274,277 | - | 3,464,576 | 51,851,615 |
| Hankook Tire America Holdings I, LLC | - | (513,654) | 524,014 | - | 632 | 10,992 |
| Hankook Tire America Holdings II, LLC | - | (50,851,746) | 50,862,106 | - | 632 | 10,992 |
| MK Technology (CHONGQING) Mould Co., Ltd. | (182,209) | (606,311) | 837,439 | - | 5,381 | 54,300 |
| Hankook Tire Ceska Republika s.r.o. | - | - | 104,617 | - | (3,763) | 100,854 |
| Total | 567,528,145 | (1,095,376,155) | 687,381,462 | 300,001,860 | (3,862,128) | 455,673,184 |

## 11. PROPERTY, PLANT AND EQUIPMENT:

(1) Details of the carrying value of property, plant and equipment as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Accumulated impairment | Carrying value |
| Land | ₩ 317,137,701 | ₩ - | ₩ - | ₩ 317,137,701 |
| Buildings | 1,427,006,466 | (331,342,130) | - | 1,095,664,336 |
| Structures | 70,500,498 | (37,286,616) | - | 33,213,882 |
| Machinery and equipment | 4,022,749,582 | (2,588,767,621) | - | 1,433,981,961 |
| Vehicles | 50,098,623 | (31,241,812) | - | 18,856,811 |
| Tools, furniture and fixtures | 957,081,477 | (594,455,094) | (4,544,240) | 358,082,143 |
| Machinery in transit | 198,031,809 | - | - | 198,031,809 |
| Construction in progress | 565,384,581 | - | - | 565,384,581 |
| Total | ₩ 7,607,990,737 | ₩ (3,583,093,273) | ₩ (4,544,240) | ₩ 4,020,353,224 |

| | 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 |

(2) Changes in property, plant and equipment for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Beginning balance | Acquisition | Disposal (*) | Depreciation | Others | Foreign currency translation | Ending balance |
| Land | ₩ 275,439,565 | ₩ 42,325,591 | ₩ - | ₩ - | ₩ 66,179 | ₩ (693,634) | ₩ 317,137,701 |
| Buildings | 1,074,911,124 | 5,594,545 | 4,515,650 | 36,261,169 | 67,079,613 | (11,144,127) | 1,095,664,336 |
| Structures | 61,050,188 | 839,818 | 20,828 | 4,316,223 | (21,996,528) | (2,342,545) | 33,213,882 |
| Machinery and equipment | 1,563,237,396 | 81,956,172 | 6,142,858 | 287,230,474 | 89,033,326 | (6,871,601) | 1,433,981,961 |
| Vehicles | 18,002,122 | 3,633,291 | 239,585 | 4,174,363 | 1,597,898 | 37,448 | 18,856,811 |
| Tools, furniture and fixtures | 340,130,695 | 51,050,584 | 11,832,723 | 84,884,532 | 64,456,931 | (838,812) | 358,082,143 |
| Machinery in transit | 13,880,532 | 193,283,408 | - | - | (16,067,463) | 6,935,332 | 198,031,809 |
| Construction in progress | 151,326,278 | 615,613,564 | 55,506 | - | (185,912,044) | (15,587,711) | 565,384,581 |
| Total | ₩ 3,497,977,900 | ₩ 994,296,973 | ₩ 22,807,150 | ₩ 416,866,761 | ₩ (1,742,088) | ₩ (30,505,650) | ₩ 4,020,353,224 |

(*1) During the current period, the Company recognizes casualty losses of ₩3,170,603 thousand against the loss of property, plant and equipment because of the manufacturing factory fire in Daejeon, Korea.

| | 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 |

(3) Pledged assets as collateral

As of December 31, 2014, 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, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Carrying value |
| Land | ₩ 83,654,643 | ₩ - | ₩ 83,654,643 |
| Buildings | 38,733,333 | (13,812,064) | 24,921,269 |
| Total | ₩ 122,387,976 | ₩ (13,812,064) | ₩ 108,575,912 |

| | 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 |

(2) Changes in investment property for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning balance | Acquisition | Disposal | Depreciation | Others | Ending balance |
| Land | ₩ 82,421,775 | ₩ - | ₩ - | ₩ - | ₩ 1,232,868 | ₩ 83,654,643 |
| Buildings | 25,756,866 | - | (507,932) | (975,615) | 647,950 | 24,921,269 |
| Total | ₩ 108,178,641 | ₩ - | ₩ (507,932) | ₩ (975,615) | ₩ 1,880,818 | ₩ 108,575,912 |

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning balance | Acquisition | Disposal | Depreciation | Others | Ending balance |
| 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 |

(3) Earnings and operating expenses from investment property for the year ended December 31, 2014, are ₩3,642,093 thousand and ₩3,367,151 thousand, respectively.

(4) As of December 31, 2014, carrying amount of investment property is ₩108,575,912 thousand and the fair value is ₩114,691,129 thousand.

## 13. INTANGIBLE ASSETS:

(1) Details of carrying value of intangible assets as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | |
|---|---|---|---|
| | Acquisition cost | Accumulated Amortization | Carrying value |
| Industrial rights | ₩ 9,695,134 | ₩ (7,538,948) | ₩ 2,156,186 |
| Other intangible assets | 125,606,658 | (23,066,105) | 102,540,553 |
| Goodwill | 27,393,122 | - | 27,393,122 |
| Total | ₩ 162,694,914 | ₩ (30,605,053) | ₩ 132,089,861 |

| | 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 |

(2) Changes in intangible assets for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning balance | Acquisition | Disposal | Amortization | Others | Ending balance |
| Industrial rights | ₩ 1,692,396 | ₩ 5,036 | ₩ (471) | ₩ (980,246) | ₩ 1,439,471 | ₩ 2,156,186 |
| Other intangible assets | 95,750,591 | 14,985,385 | - | (10,170,937) | 1,975,514 | 102,540,553 |
| Goodwill | 27,393,122 | - | - | - | - | 27,393,122 |
| Total | ₩ 124,836,109 | ₩ 14,990,421 | ₩ (471) | ₩ (11,151,183) | ₩ 3,414,985 | ₩ 132,089,861 |

| | 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 | 12,293,795 | (10,893) | (5,471,079) | 1,903,796 | 95,750,590 |
| Goodwill | 27,393,123 | - | - | - | - | 27,393,123 |
| Total | ₩ 116,615,826 | ₩ 12,606,277 | ₩ (288,103) | ₩ (6,387,847) | ₩ 2,289,956 | ₩ 124,836,109 |

(3) The recoverable amount of 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.

| | Rate |
|---|---|
| Discount rate (weighted-average capital cost) | 10.2% |
| Permanent growth rate | 0.0% |

## 14. TRADE AND OTHER ACCOUNTS PAYABLE:

Details of trade and other accounts payable as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Trade payables | ₩ 488,482,047 | ₩ 459,255,274 |
| Other accounts payable | 361,159,565 | 327,450,108 |
| Accrued expenses | 141,134,184 | 138,269,683 |
| | 17,054 | 8,653 |
| Total | ₩ 990,792,850 | ₩ 924,983,718 |

## 15. BORROWINGS:

(1) Details of borrowings as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Short-term borrowings | ₩ 1,462,356,343 | ₩ - | ₩ 1,672,518,879 | ₩ - |
| Long-term borrowings | 301,776,959 | 367,497,536 | 83,047,183 | 619,155,188 |
| Debentures | 79,982,971 | 211,993,978 | - | 203,733,365 |
| Total | ₩ 1,844,116,273 | ₩ 579,491,514 | ₩ 1,755,566,062 | ₩ 822,888,553 |

(2) Details of short-term borrowings as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | Lender | Annual interest rate (%) | December 31 2014 | December 31 2013 |
|---|---|---|---|---|
| General loans | Bank of China and others | 0.88–6.00 | ₩ 626,465,549 | ₩ 713,080,651 |
| Bank overdrafts | UniCredit and others | Euribor + 1.03–1.18 | 2,907,648 | 2,472,714 |
| Transfer of trade receivables(*1) | Woori Bank and others | 0.53–2.98 | 559,996,866 | 656,779,423 |
| Usance | Kookmin Bank and others | 0.35–2.56 | 159,052,958 | 188,128,327 |
| Trade financing | Shinhan Bank and others | LIBOR + 0.65–0.90 | 113,933,322 | 112,057,764 |
| | Total | | ₩ 1,462,356,343 | ₩ 1,672,518,879 |

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

(3) Details of long-term borrowings as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | | | December 31, 2014 | |
|---|---|---|---|---|
| | Lender | Annual interest rate (%) | Current | Non-current |
| Long-term borrowings in local currency | Woori Bank | 2.00 | ₩ - | ₩ 800,000 |
| Long-term borrowings in foreign currency | Korea Development Bank and others | 1.35–6.15 | 301,776,959 | 366,697,536 |
| | Total | | ₩ 301,776,959 | ₩ 367,497,536 |

| | Lender | Annual interest rate (%) | December 31, 2013 Current | |
|---|---|---|---|---|
| | | | 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 |

(4) Details of debentures as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| Classification | Issue dates | Maturity dates | Annual interest rate (%) | December 31, 2014 Current | Non-current |
|---|---|---|---|---|---|
| The 81-1st debentures payable | 2012.02.21 | 2015.02.21 | 3.84 | ₩ 80,000,000 | ₩ - |
| The 81-2nd debentures payable | 2012.02.21 | 2017.02.21 | 4.06 | - | 70,000,000 |
| The 82nd debentures payable | 2014.09.01 | 2017.09.01 | LIIBOR+0.83 | - | 54,960,000 |
| Tennessee local government bond | 2014.12.10 | 2024.12.10 | 0.40 | - | 32,976,000 |
| Discount on debentures | | | | (17,029) | (983,058) |
| Debentures(Jiaxing) | 2013.4.22 | 2016.4.22 | 5.01 | - | 55,041,036 |
| Total | | | | ₩ 79,982,971 | ₩ 211,993,978 |

| Classification | Issue dates | Maturity dates | Annual interest rate (%) | December 31, 2013 Current | Non-current |
|---|---|---|---|---|---|
| The 81-1st debentures payable | 2013.2.21 | 2015.2.21 | 3.84 | ₩ - | ₩ 80,000,000 |
| The 81-2nd debentures payable | 2013.2.21 | 2017.2.21 | 4.06 | - | 70,000,000 |
| Discount on debentures | | | | - | (332,504) |
| Debentures(Jiaxing) | 2013.4.22 | 2016.4.22 | 5.01 | - | 54,065,869 |
| Total | | | | ₩ - | ₩ 203,733,365 |

## 16. OTHER FINANCIAL LIABILITIES:

Details of other financial liabilities as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 Current | Non-current |
|---|---|---|
| Foreign exchange forward liabilities | ₩ 60,954 | ₩ - |
| Rental deposits | - | 4,773,506 |
| Total | ₩ 60,954 | ₩ 4,773,506 |

| | December 31, 2013 Current | Non-current |
|---|---|---|
| Foreign exchange forward liabilities | ₩ - | ₩ - |
| Rental deposits | - | 4,676,639 |
| Total | ₩ - | ₩ 4,676,639 |

## 17. RETIREMENT BENEFIT PLAN:

The most recent actuarial assessment of plan assets and defined benefit obligation was performed based on December 31, 2014, 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, 2014, are as follows (Unit: %):

| | December 31, 2014 |
|---|---|
| Discount rate | 2.71–3.90 |
| Expected rate of salary increase | 1.06–5.77 |

(2) As of December 31, 2014 and 2013, amounts recognized in the consolidated statement of financial position related to retirement benefit obligation are as follows (Korean won in thousands):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Present value of defined benefit obligation | ₩ 282,581,904 | ₩ 222,958,671 |
| Fair value of plan assets | (235,126,799) | (206,099,231) |
| Net retirement benefit liabilities | ₩ 47,455,105 | ₩ 16,859,440 |

(3) Changes in present value of net defined benefit liabilities for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | |
|---|---|---|---|
| | Present value of defined benefit obligation | Plan assets | Total |
| Beginning balance | ₩ 222,958,671 | ₩ (206,099,231) | ₩ 16,859,440 |
| Current service cost | 45,861,974 | - | 45,861,974 |
| Interest expense (income) | 10,635,099 | (9,348,528) | 1,286,571 |
| Subtotal | 56,497,073 | (9,348,528) | 47,148,545 |
| Remeasurements | 19,752,235 | 3,723,247 | 23,475,482 |
| Company contributions | - | (35,384,966) | (35,384,966) |
| Benefits paid | (16,546,223) | 11,982,679 | (4,563,544) |
| Other | (79,852) | - | (79,852) |
| Ending balance | ₩ 282,581,904 | ₩ (235,126,799) | ₩ 47,455,105 |

| | 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 | 53,422,895 | (7,512,333) | 45,910,562 |
| Remeasurements | (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 |

(4) Amounts recognized in profit and loss regarding defined benefit plans for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| Current service cost | ₩ 45,861,974 | ₩ 44,644,668 |
| Interest cost | 10,635,099 | 8,778,227 |
| Expected return on plan assets | (9,348,528) | (7,512,333) |
| Total | ₩ 47,148,545 | ₩ 45,910,562 |

**18. <u>PROVISIONS</u>:**

(1) Details of provisions as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Provision for product liabilities | ₩ 7,144,800 | ₩ 6,859,450 |
| Provision for product warranties | 40,686,669 | 44,994,779 |
| Long-term debts for employees | 15,151,174 | 13,593,039 |
| Other provisions | 275,497 | 448,085 |
| Total | ₩ 63,258,140 | ₩ 65,895,353 |

(2) Changes in provisions for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Changes | | | | | Current classification | |
| | Beginning balance | Loss on restoration | Decrease in restoration provisions | Foreign currency translation | Ending balance | Current | Non-current |
| Provision for product liabilities(*1) | ₩ 6,859,450 | ₩ - | ₩ - | ₩ 285,350 | ₩ 7,144,800 | ₩ - | ₩ 7,144,800 |
| Provision for product warranties(*2) | 44,994,779 | 19,204,682 | (22,973,655) | (539,137) | 40,686,669 | - | 40,686,669 |
| Long-term debts for Employees | 13,593,039 | 2,639,317 | (1,081,182) | | 15,151,174 | - | 15,151,174 |
| Other provisions(*3) | 448,085 | (172,588) | - | - | 275,497 | - | 275,497 |
| Total | ₩ 65,895,353 | ₩ 21,671,411 | ₩ (24,054,837) | ₩ (253,787) | ₩ 63,258,140 | ₩ - | ₩ 63,258,140 |

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Changes | | | | | Current classification | |
| | Beginning balance | Loss on restoration | Decrease in restoration provisions | Foreign currency translation | Ending balance | Current | Non-current |
| Provision for product liabilities(*1) | ₩ 6,962,150 | ₩ - | ₩ - | ₩ (102,700) | ₩ 6,859,450 | ₩ - | ₩ 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) | (229,049) | 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) | ₩ (1,197,292) | ₩ 65,895,353 | ₩ - | ₩ 65,895,353 |

(*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 in 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.(Note 37)

## 19. OTHER LIABILITIES:

Details of other liabilities as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Advance received | ₩ 13,721,376 | ₩ - | ₩ 26,291,228 | ₩ - |
| Withholdings | 59,725,253 | - | 39,685,772 | - |
| Unearned revenue | 57,229,733 | 39,286,445 | 47,212,078 | - |
| Others | 1,012,679 | - | 1,111,877 | - |
| Total | ₩ 131,689,041 | ₩ 39,286,445 | ₩ 114,300,955 | ₩ - |

## 20. CAPITAL STOCK:

Details of capital stock as of December 31, 2014 and 2013, are as follows (Korean won):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| 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, 2014, the Group holds 22,388 fractional shares in treasury, which have 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, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Paid-in capital in excess of par value | ₩ 2,993,465,738 | ₩ 2,993,465,738 |
| Treasury stocks | (1,088,018) | (1,088,018) |
| Total | ₩ 2,992,377,720 | ₩ 2,992,377,720 |

## 22. RETAINED EARNINGS AND DIVIDENDS:

(1) Details of retained earnings as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Legal reserve: | ₩ | 9,908,214 | ₩ | 4,954,107 |
| Subtotal | | 9,908,214 | | 4,954,107 |
| Voluntary reserve | | | | |
| Dividend equalization reserve | | 20,000,000 | | 10,000,000 |
| Officer's retirement bonus reserve | | 2,000,000 | | 1,000,000 |
| Voluntary reserve | | 20,000,000 | | 10,000,000 |
| Subtotal | | 42,000,000 | | 21,000,000 |
| Earned surplus reserve | | 1,490,498,330 | | 883,241,611 |
| Total | ₩ | 1,542,406,544 | ₩ | 909,195,718 |

(*) The Commercial Code of the Republic of Korea requires the Group to appropriate as a legal reserve a minimum of 10% of annual cash dividends declared, until such reserve equals 50% of its capital stock issued. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficit, if any.

(2) Details of changes in retained earnings for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 909,195,718 | ₩ | 211,566,946 |
| Net income | | 700,360,438 | | 737,926,606 |
| Dividends | | (49,541,072) | | (49,541,072) |
| Remeasurements of defined benefit plans | | (23,475,482) | | 12,178,024 |
| Income tax effects | | 5,657,072 | | (2,941,182) |
| Changes in non-controlling interest | | 209,870 | | 6,396 |
| Ending balance | ₩ | 1,542,406,544 | ₩ | 909,195,718 |

(3) Details of changes in remeasurements of defined benefit plans for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Beginning balance | ₩ | (10,758,787) | ₩ | (20,002,025) |
| Current changes | | (23,475,482) | | 12,178,023 |
| Income tax effects | | 5,657,072 | | (2,941,182) |
| Changes in non-controlling interest | | 209,869 | | 6,397 |
| Ending balance | ₩ | (28,367,328) | ₩ | (10,758,787) |

## 23. OTHER EQUITY:

(1) Details of other capital components as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Losses on valuation of AFS securities, net | ₩ | 756,916 | ₩ | 595,746 |
| Cash flow hedging reserve | | - | | - |
| Gains on translation of foreign operations | | (86,488,973) | | (46,569,781) |
| Total | ₩ | (85,732,057) | ₩ | (45,974,035) |

(2) Details of changes in gains and losses on valuation of AFS securities for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Beginning balance | ₩ | 595,746 | ₩ | (38,289) |
| Losses on valuation of AFS securities, net | | 164,483 | | 647,066 |
| Tax effects on valuation of AFS securities, net | | (2,792) | | (10,981) |
| Changes in non-controlling interest | | (521) | | (2,050) |
| Ending balance | ₩ | 756,916 | ₩ | 595,746 |

(3) Details of changes in cash flow hedging reserve for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Beginning balance | ₩ | - | ₩ | (229,798) |
| Losses on cash flow hedging reserve | | - | | 303,164 |
| Tax effects on the other comprehensive income | | - | | (73,366) |
| Ending balance | ₩ | - | ₩ | - |

(4) Details of changes in gains and losses on translation of foreign operations for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Beginning balance | ₩ | (46,569,781) | ₩ | (53,544,687) |
| Changes in current period | | (42,346,902) | | 7,546,758 |
| Tax effects on the other comprehensive income | | 2,586,872 | | (490,107) |
| Changes in non-controlling interest | | (159,162) | | (81,745) |
| Ending balance | ₩ | (86,488,973) | ₩ | (46,569,781) |

**24. SALES AND COST OF SALES:**

(1) Details of sales for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Sale of goods | ₩ | 6,671,360,833 | ₩ | 7,057,630,146 |
| Sale of finished goods | | 7,003,332,695 | | 7,361,419,981 |
| Sale discount | | (116,328,642) | | (115,991,880) |
| Export fees | | (199,590,442) | | (168,500,534) |
| Sales incentive | | (16,052,778) | | (19,297,421) |
| Rendering of services | | 9,486,868 | | 11,607,507 |
| Rental sales | | 3,406,481 | | 2,540,226 |
| Service sales | | 295,598 | | 675,934 |
| Other sales | | 5,784,789 | | 8,391,347 |
| Total | ₩ | 6,680,847,701 | ₩ | 7,069,237,653 |

(2) Details of cost of sales for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Cost of finished goods sold | ₩ | 4,305,255,284 | ₩ | 4,722,470,499 |
| Custom duties reimbursed | | (22,267,478) | | (10,920,716) |
| Loss (reversal of) on valuation of inventories, net | | (2,186,981) | | (699,182) |
| Total | ₩ | 4,280,800,825 | ₩ | 4,710,850,601 |

**25. SELLING AND ADMINISTRATIVE EXPENSES:**

(1) Details of selling expenses for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Payroll | ₩ | 53,801,526 | ₩ | 50,081,046 |
| Provision for severance benefits | | 4,949,756 | | 2,875,806 |
| Travel and transportation expenses | | 186,740,096 | | 175,925,247 |
| Ship transportation expenses | | 160,524,897 | | 157,895,387 |
| Packing charges | | 11,275,876 | | 12,640,117 |
| Advertisement | | 197,641,987 | | 207,462,943 |
| Other export expenses | | 14,625,183 | | 11,871,068 |
| Foreign market development expenses | | 199,842 | | 132,467 |
| Sales damage expenses | | 19,032,093 | | 23,504,703 |
| Total | ₩ | 648,791,256 | ₩ | 642,388,784 |

(2) Details of administrative expense for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Payroll | ₩ | 125,951,899 | ₩ | 128,894,904 |
| Provision for severance benefits | | 3,649,823 | | 5,680,564 |
| Utility expenses | | 5,792,283 | | 6,364,516 |
| Depreciation | | 38,479,075 | | 40,910,936 |
| Repairs expenses | | 4,431,019 | | 4,115,705 |
| Supplies expenses | | 4,030,764 | | 4,078,555 |
| Taxes and dues | | 24,030,028 | | 22,817,008 |
| Rental expenses | | 30,168,407 | | 26,706,866 |
| Insurance | | 8,210,768 | | 9,410,015 |
| Employee benefits | | 46,275,218 | | 43,617,444 |
| Travel expenses | | 17,473,152 | | 18,412,400 |
| Communication expenses | | 4,277,512 | | 5,030,680 |
| Service expenses | | 39,211,426 | | 37,766,507 |
| Service fees | | 48,232,905 | | 53,701,434 |
| Entertainment expenses | | 6,470,327 | | 6,644,187 |
| Publication expenses | | 1,033,941 | | 1,113,960 |
| Training expenses | | 1,637,561 | | 2,769,530 |
| Vehicles maintenance expenses | | 4,747,838 | | 4,910,258 |
| Provision (Reversal of allowance) for doubtful accounts | | (4,448,580) | | 2,288,328 |
| Amortization of intangible assets | | 8,000,275 | | 4,309,538 |
| Warehouse charges | | 58,835,048 | | 47,681,873 |
| Test expenses | | 8,288,507 | | 9,517,625 |
| Overseas branch maintenance expenses | | 7,320,832 | | 7,555,840 |
| SSC service fee | | 17,457,246 | | 18,528,573 |
| Brand loyalty expenses | | 48,886,713 | | 43,278,285 |
| Amortization of investment property | | 975,615 | | 699,695 |
| Miscellaneous expenses | | 4,260,144 | | 3,669,586 |
| Conference expenses | | 645,040 | | 580,772 |
| Total | ₩ | 564,324,786 | ₩ | 561,055,584 |

## 26. FINANCIAL INCOME:

(1) Details of financial income for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | | 2014 | | 2013 |
|---|---|---|---|---|
| Interest income: | | | | |
| Short-term financial assets | ₩ | 20,929,311 | ₩ | 16,634,096 |
| Trade and other accounts receivable | | 310,161 | | 517,273 |
| AFS financial assets | | 81,915 | | 22,605 |
| Subtotal | | 21,321,387 | | 17,173,974 |
| Gain on disposal of AFS securities | | 703 | | - |
| Gain on valuation of foreign exchange forward contracts | | 6,060,694 | | - |
| Gain on foreign currency translation | | 42,577,488 | | 23,766,200 |
| Gain on foreign currency transaction | | 14,866,558 | | 17,112,854 |
| Total | ₩ | 84,826,830 | ₩ | 58,053,028 |

(2) Details of financial income by categories for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| Loans and receivables | ₩ 21,239,472 | ₩ 17,151,369 |
| Financial assets AFS | 81,915 | 22,605 |
| Subtotal | 21,321,387 | 17,173,974 |
| Gain on disposal of AFS securities | 703 | - |
| Gain on valuation of derivatives | 6,060,694 | - |
| Gain on foreign currency transaction from borrowings in foreign currency | 2,645,851 | 7,938,184 |
| Gain on foreign currency transaction from deposits in foreign currency | 12,216,296 | 9,174,670 |
| Gain on foreign currencies transaction from loans in foreign currency | 4,410 | - |
| Gain on foreign currency translation from borrowings in foreign currency | 8,004,879 | 3,311,910 |
| Gain on foreign currency translation from deposits in foreign currency | 21,097,610 | 20,454,290 |
| Gain on foreign currency translation from loans in foreign currency | 13,475,000 | - |
| Total | ₩ 84,826,830 | ₩ 58,053,028 |

## 27. FINANCIAL EXPENSES:

Details of financial expenses for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| Interest expense: | | |
| Common borrowings | ₩ 44,633,843 | ₩ 56,993,742 |
| Bonds interest | 5,669,036 | 5,911,857 |
| Subtotal | 50,302,879 | 62,905,599 |
| Qualifying assets | (415,929) | (830,928) |
| Subtotal | 49,886,950 | 62,074,671 |
| Loss on disposal of AFS securities | 14,995 | 17,136 |
| Loss on valuation of derivatives | 60,846 | - |
| Loss on transaction of derivatives | 3,463 | - |
| Loss on foreign currency transaction from borrowings in foreign currency | 13,013,796 | 15,706,199 |
| Loss on foreign currency transaction from deposits in foreign currency | 24,843,125 | 12,739,314 |
| | 5,349 | - |
| Loss on foreign currency translation from borrowings in foreign currency | - | 3,075,869 |
| Loss on foreign currency translation from deposits in foreign currency | 44,609,701 | 10,912,764 |
| Loss on foreign currency translation from short and long term loans in foreign currency | 5,163,850 | 1,883,000 |
| Total | ₩ 137,602,075 | ₩ 106,408,953 |

## 28. OTHER NON-OPERATING INCOME:

Details of other non-operating income for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| Commission income | ₩ 589,911 | ₩ 432,521 |
| Dividend income | 55,410 | 83,455 |
| Royalty fee income | 1,545,833 | 1,260,480 |
| Rental income | 855,141 | 869,084 |
| Gains on valuation of derivatives | 70,911 | - |
| Reversal of allowance for doubtful accounts | 41,010 | 216,546 |
| Gains on foreign currency transaction | 129,855,375 | 138,286,160 |
| Gains on foreign currency translation | 28,515,486 | 41,224,646 |
| Gains on disposal of property, plant and equipment | 2,329,879 | 1,937,637 |
| Gain on disposal of intangible assets | 1,555 | - |
| Gains on insurance settlements | 13,697,003 | 30,103 |
| Reversal of other allowance | 172,588 | - |
| Other non-operating income | 18,664,468 | 27,253,763 |
| Total | ₩ 196,394,570 | ₩ 211,594,395 |

## 29. OTHER NON-OPERATING EXPENSES:

Details of other non-operating expenses for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| Donation | ₩ 4,090,799 | ₩ 3,959,773 |
| Losses on disposal of property, plant and equipment | 8,293,686 | 13,800,109 |
| Losses on property abandoned | 1,515 | 114,557 |
| Loss on impairment of property, plant and equipment | 2,977,847 | - |
| Losses on disposal of intangible assets | 471 | 735 |
| Losses on disposition of investment real estate | 507,932 | - |
| Other bad debt expenses | 590,694 | - |
| Losses on inventory abandoned | 2,389,127 | 2,459,366 |
| Losses on disposal of trade receivable | 699,375 | 569,578 |
| Losses on valuation of foreign exchange forward contracts | - | 367,273 |
| Losses on foreign currency transaction | 142,937,804 | 133,593,376 |
| Losses on foreign currency translation | 59,935,895 | 46,005,292 |
| Casualty loss | 12,871,361 | - |
| Losses on restoration in other provisions | - | 219,692 |
| Other non-operating expenses | 4,324,889 | 3,479,766 |
| Total | ₩ 239,621,395 | ₩ 204,569,517 |

## 30. INCOME TAX EXPENSE:

(1) Income tax expenses for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| Current income tax expense | ₩ 251,180,294 | ₩ 245,525,730 |
| Deferred income tax expense | (14,840,990) | 9,117,833 |
| Changes in temporary difference | (23,022,950) | 12,633,470 |
| Deferred income tax directly adjusted in equity | 8,181,960 | (3,515,637) |
| Income tax expense of the Group | ₩ 236,339,304 | ₩ 254,643,563 |

(2) The reconciliation from income before income tax expense to income tax expense for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| Income before income tax expense | ₩ 935,634,493 | ₩ 989,675,449 |
| Income tax expense calculated at applicable tax rates | 225,654,191 | 238,768,426 |
| Adjustments | 10,685,113 | 15,875,137 |
| Non-taxable income | (78,657) | (31,754) |
| Disallowed expenses | 1,587,339 | 1,330,292 |
| Tax credit and exemptions | (3,639,695) | (5,196,273) |
| Additional income tax and tax refund | 32,034,492 | 22,037,169 |
| Others | (19,218,366) | (2,264,297) |
| Income tax expense | ₩ 236,339,304 | ₩ 254,643,563 |

(3) The changes in accumulated temporary differences for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| The Parent Company | | |
| Beginning balance of accumulated temporary difference, net | ₩ (74,837,586) | ₩ (101,248,853) |
| Changes in the current year, net | 86,996,116 | 26,411,267 |
| Ending balance of accumulated temporary difference, net | 12,158,530 | (74,837,586) |
| Exclusion from temporary difference due to uncertainty of realization(*2) | 128,458,627 | 87,638,243 |
| Subtotal | (116,300,097) | (162,475,829) |
| Statutory tax rate (*1) | 24.20% | 24.20% |
| Deferred income tax assets of the Parent Company | (28,144,624) | (39,319,151) |
| Deferred income tax assets of consolidated subsidiaries and others | 5,509,111 | 14,216,722 |
| Deferred income tax assets of adjusting consolidation | 120,743,642 | 100,187,609 |
| Ending balance of deferred income tax assets in consolidation | ₩ 98,108,130 | ₩ 75,085,180 |

(*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, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Before tax | Income tax effect | After tax | Non-controlling interest |
| Gain (loss) on valuation of AFS financial assets | ₩ 772,178 | ₩ (15,262) | ₩ 756,916 | ₩ 4,376 |
| Remeasurements of retirement benefit plan | (37,410,424) | 9,036,700 | (28,373,724) | (133,243) |
| Exchange differences on translating foreign operations | (87,512,332) | 1,023,360 | (86,488,972) | (8,370) |
| Total | ₩ (124,150,578) | ₩ 10,044,798 | ₩ (114,105,780) | ₩ (137,237) |

| | 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 |
| Remeasurements of retirement benefit plan | (14,204,005) | 3,438,822 | (10,765,183) | (126,847) |
| 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) |

## 31. EXPENSE CLASSIFICATION BY NATURE:

Expenses classified by nature for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | | | |
|---|---|---|---|---|
| | Cost of sales | Selling and administrative expenses | Research and development expenses | Total |
| Changes in inventories | | | | |
| Finished goods | ₩ (24,450,192) | ₩ - | ₩ - | ₩ (24,450,192) |
| Work in process | 3,856,965 | - | - | 3,856,965 |
| Supplies | (2,467,247) | - | - | (2,467,247) |
| Raw materials | 3,124,098,216 | - | - | 3,124,098,216 |
| Payroll | 566,335,723 | 234,628,222 | 78,675,056 | 879,639,001 |
| Depreciation of property, plant and equipment | 363,263,950 | 38,479,075 | 15,123,736 | 416,866,761 |
| Amortization of intangible assets | 2,141,120 | 8,000,275 | 1,009,788 | 11,151,183 |
| Service fees | 19,160,087 | 48,232,905 | 5,078,372 | 72,471,364 |
| Others | 228,862,203 | 883,775,565 | 55,407,318 | 1,168,045,086 |
| Total | ₩ 4,280,800,825 | ₩ 1,213,116,042 | ₩ 155,294,270 | ₩ 5,649,211,137 |

| | 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 |

## 32. EARNINGS PER SHARE:

(1) The Group’s basic and diluted earnings per share for the years ended December 31, 2014 and 2013, are computed as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| Net income of the parent | ₩ 700,360,439,259 | ₩ 737,926,606,483 |
| Dividends for preferred stock | - | - |
| Net income available for common shareholders | 700,360,439,259 | 737,926,606,483 |
| Weighted-average number of common shares outstanding(*2) | 123,852,681 | 123,852,681 |
| Basic and diluted earnings per share(*1) | ₩ 5,655 | ₩ 5,958 |

(*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 years ended December 31, 2014 and 2013, is as follows (Korean won in thousands):

| Geographical segment | 2014 Amounts | 2014 Ratio(%) | 2013 Amounts | 2013 Ratio(%) |
|---|---|---|---|---|
| North America | ₩ 1,556,369,429 | 23.3 | ₩ 1,540,532,665 | 21.8 |
| South and Central America | 200,207,595 | 3.0 | 220,062,263 | 3.1 |
| Asia, except Korea | 1,671,268,733 | 25.0 | 1,910,647,048 | 27.0 |
| Europe | 1,908,098,679 | 28.6 | 1,949,179,593 | 27.6 |
| Domestic | 1,344,903,265 | 20.1 | 1,448,816,084 | 20.5 |
| Total | ₩ 6,680,847,701 | 100.0 | ₩ 7,069,237,653 | 100.0 |

## 34. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2014, 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' associates | Atlas BX Co., Ltd., EmFrontier Inc., Frixa Co., Ltd., Atlas BX Motorsports Co., Ltd. Emfrontier America Inc. |
| Domestic Subsidiaries | Daehwa Engineering & Machinery Co., Ltd., Hanyang Tire Sales Corp., 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 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. Hankook Tire de Colombia Ltda., Hankook Tire Manufacturing Tennessee LP, Hankook Tire America Holdings I, LLC, Hankook Tire America Holdings II, LLC., MK Technology (CHONGQING) Mould Co., Ltd., Hankook Tire Ceska Republika s.r.o. |
| Others(*) | Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Daehwa Eng' & Machinery Jiaxing Co., Ltd., Anothen WTE Co., Ltd., H-2 WTE Co., Ltd., Anothen Geumsan Co., Ltd. |

(*) Hankook Tire Worldwide Co., Ltd., Atlas BX Co., Ltd., EmFrontier Inc., Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Anothen WTE Co., Ltd., H-2 WTE Co., Ltd. and Anothen 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 years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

a) Sales and others

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Sales | Others | Sales | Others |
| Atlas BX Co., Ltd. | ₩ 165,450 | ₩ 233,494 | ₩ 18,852 | ₩ - |
| EmFrontier Inc. | - | 3,618 | - | 6,263 |
| Frixa Co., Ltd. | - | 56,257 | - | 28,170 |
| Hankook Tire Worldwide Co., Ltd. | - | 192,411 | - | 30,005 |
| Total | ₩ 165,450 | ₩ 485,780 | ₩ 18,852 | ₩ 64,438 |

b) Purchases and others

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Purchases | Others | Purchases | Others |
| Atlas BX Co., Ltd. | ₩ 39,850,061 | ₩ - | ₩ 44,674,959 | ₩ - |
| EmFrontier Inc. | - | 67,836,615 | 15,300,688 | 13,050,136 |
| Shin-Yang Tourist Development | - | 63,969 | - | - |
| Frixa Co., Ltd. | 7,992,296 | - | 7,817,615 | - |
| Hankook Tire Worldwide Co., Ltd. | - | 74,010,149 | - | 67,389,296 |
| Total | ₩ 47,842,357 | ₩ 141,910,733 | ₩ 67,793,262 | ₩ 80,439,432 |

2) Outstanding balances of receivables and payables as of December 31, 2014 and 2013, are as follows (Korean won in thousands):

a) Accounts receivables and others

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Accounts receivables | Other accounts receivables | Accounts receivables | Other accounts receivables |
| Atlas BX Co., Ltd. | ₩ - | ₩ - | ₩ 14,974 | ₩ - |
| EmFrontier Inc. | - | - | 6,890 | - |
| Shin-Yang Tourist Development | - | 400,000 | - | |
| Hankook Tire Worldwide Co., Ltd. | - | 1,920,626 | - | 1,931,256 |
| Total | ₩ - | ₩ 2,320,626 | ₩ 21,864 | ₩ 1,931,256 |

b) Accounts payables and others

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Accounts payables | Other accounts payables | Accounts payables | Other accounts payables |
| Atlas BX Co., Ltd. | ₩ 21,856,171 | ₩ - | ₩ 21,684,247 | ₩ - |
| EmFrontier Inc. | 7,861,678 | 13,310,320 | 1,522,723 | 9,124,147 |
| Frixa Co., Ltd. | 740,956 | - | 697,700 | - |
| Hankook Tire Worldwide Co., Ltd. | - | 114,799,475 | - | 174,124,766 |
| Shin-Yang Tourist Development | - | - | - | 2,932,902 |
| Total | ₩ 30,458,805 | ₩ 128,109,795 | ₩ 23,904,670 | ₩ 186,181,815 |

3) Hankook Tire Worldwide Co., Ltd. (the surviving company) provides joint surety with 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, 2014 and 2013, are as follows (in thousands):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Unit | Foreign currency | Korean won | Foreign currency | Korean won |
| USD | 200,000 | ₩ 219,840,000 | 340,000 | ₩ 358,802,000 |
| EUR | 164,854 | 220,331,257 | 234,854 | 342,009,128 |
| HUF(*) | 16,097,000 | 68,412,250 | 16,097,000 | 79,036,270 |
| Total | | ₩ 508,583,507 | | ₩ 779,847,398 |

(*) The above guarantee amount includes direct suretyship provided to the Hungarian government as follows:

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

Also, outstanding credit facility agreements provided by Hankook Tire Worldwide Co., Ltd. jointly and severally as of December 31, 2014 and 2013, are as follows (in thousands):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Unit | Foreign currency | Korean won | Foreign currency | Korean won |
| USD | 70,000 | 76,944,000 | 70,000 | 73,871,000 |
| EUR | 25,000 | 33,413,000 | 25,000 | 36,406,500 |

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) Compensations for key management personnel for the years ended December 31, 2014 and 2013, are as follows (Korean won in thousands):

| | 2014 | 2013 |
|---|---|---|
| Short-term benefits | ₩ 10,672,641 | ₩ 7,315,849 |
| Severance and retirement benefits | 1,034,200 | 1,552,873 |
| | ₩ 11,706,841 | ₩ 8,868,722 |

## 35. CASH AND CASH EQUIVALENTS:

(1) Cash and cash equivalents consist of cash and bank deposit minus overdraft on the consolidated statement of cash flows. As of December 31, 2014 and 2013, cash and cash equivalents of the consolidated financial statements are calculated as follows (Korean won in thousands):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Cash and bank deposit | ₩ 725,184,392 | ₩ 682,413,905 |
| Overdraft | - | - |
| Cash and cash equivalents | ₩ 725,184,392 | ₩ 682,413,905 |

## 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):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Total liabilities | ₩ 3,803,608,991 | ₩ 3,852,577,581 |
| Total shareholders' equity | 4,516,473,178 | 3,924,135,810 |
| Debt ratio | 84.22% | 98.18% |

(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, 2014 and 2013, are as follows (Korean won in thousands):

| | | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|---|
| Financial Assets | Account | Book value | Fair value | Book value | Fair value |
| Financial assets AFS | AFS Financial assets | ₩ 3,490,327 | ₩ 3,490,327 | ₩ 3,079,761 | ₩ 3,079,761 |
| Derivatives designated as a hedging instrument | Derivative financial assets | 6,145,322 | 6,145,322 | - | - |
| Loans and receivables | Cash and cash equivalents | 725,184,392 | 725,184,392 | 682,413,905 | 682,413,905 |
| | Short-term financial assets | 446,827,604 | 446,827,604 | 482,458,755 | 482,458,755 |
| | Trade receivables | 1,070,793,183 | 1,070,793,183 | 1,057,214,638 | 1,057,214,638 |
| | Other accounts receivable | 112,715,964 | 112,715,964 | 124,720,243 | 124,720,243 |
| | Accrued income | 23,440,684 | 23,440,684 | 9,061,168 | 9,061,168 |
| | Deposits provided (current) | 2,378,956 | 2,378,956 | 589,803 | 589,803 |
| | Short-term loans | 542,393 | 542,393 | 1,701,568 | 1,701,568 |
| | Deposits provided | 10,597,341 | 10,597,341 | 10,549,067 | 10,549,067 |
| | Long-term financial assets | 64,114 | 64,114 | 71,909 | 71,909 |
| | Long-term loans | 6,030,359 | 6,030,359 | 4,495,299 | 4,495,299 |
| Total | | ₩ 2,408,210,639 | ₩ 2,408,210,639 | ₩ 2,376,356,116 | ₩ 2,376,356,116 |
| Financial Liabilities | | | | | |
| Derivatives designated as a hedging instrument | Derivative financial liabilities | ₩ 60,954 | ₩ 60,954 | ₩ - | ₩ - |
| Financial liabilities at amortized cost | Trade payables | 488,482,047 | 488,482,047 | 459,255,274 | 459,255,274 |
| | Other accounts payable | 361,159,565 | 361,159,565 | 327,450,108 | 327,450,108 |
| | Accrued expenses | 141,134,185 | 141,134,185 | 138,269,683 | 138,269,683 |
| | Dividends payable | 17,054 | 17,054 | 8,653 | 8,653 |
| | Short-term borrowings | 1,462,356,343 | 1,462,356,343 | 1,672,518,879 | 1,672,518,879 |
| | Current portion of long-term borrowings | 301,776,959 | 301,776,959 | 83,047,183 | 83,047,183 |
| | Long-term borrowings | 367,497,536 | 367,497,536 | 619,155,188 | 619,155,188 |
| | Debentures | 291,976,949 | 291,976,949 | 203,733,365 | 203,733,365 |
| | Rental deposits | 4,773,506 | 4,773,506 | 4,676,638 | 4,676,638 |
| Total | | ₩ 3,419,235,098 | ₩ 3,419,235,098 | ₩ 3,508,114,971 | ₩ 3,508,114,971 |

(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 polices 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, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| AUD | ₩ 28,123 | ₩ 71 | ₩ 28,222 | ₩ 161 |
| CAD | 19,838 | 18,915 | 17,218 | 16,714 |
| CNY | 37,932 | - | 646 | - |
| EUR | 170,291 | 95,882 | 128,136 | 104,000 |
| GBP | 11,598 | 11,404 | 18,016 | 18,029 |
| IDR | 23,246 | 47,199 | - | 116,476 |
| JPY | 1,579,881 | 1,485,563 | 2,350,713 | 2,079,992 |
| MXN | 382,450 | 11 | 334,667 | 392 |
| MYR | - | - | 511 | - |
| NOK | 25,439 | - | 11,989 | 408 |
| NZD | 1,635 | 18 | 2,932 | 27 |
| PLN | 37,557 | - | 33,687 | - |
| RUB | 2,568,107 | 3,225 | 748,081 | 37,723 |
| SEK | 45,424 | 19,487 | 45,968 | 43,660 |
| THB | 113,687 | - | 1,299 | - |
| TRY | 8,433 | 79 | - | 157 |
| USD | 693,064 | 703,034 | 482,274 | 630,463 |

The Group's sensitivity to a 10% increase and decrease in the Korean won (functional currency of the Group) against the major foreign currencies as of December 31, 2014, 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 Korean won weakens 10% against the relevant currency. For a 10% strengthening of the Korean won 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 | ₩ 2,805 | ₩ 2,805 |
| CAD | 92 | 92 |
| CNY | 3,793 | 3,793 |
| EUR | 7,441 | 7,441 |
| GBP | 19 | 19 |
| IDR | (2,395) | (2,395) |
| MXN | 9,432 | 9,432 |
| MYR | 38,244 | 38,244 |
| NOK | 2,544 | 2,544 |
| NZD | 162 | 162 |
| PLN | 3,756 | 3,756 |
| RUB | 256,488 | 256,488 |
| SEK | 2,594 | 2,594 |
| THB | 11,369 | 11,369 |
| TRY | 835 | 835 |
| USD | (997) | (997) |

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, 2014 (Korean won in thousands):

| | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Contract date | Expire date | Purchasing currency | Purchasing amount | Selling currency | Selling amount | Gain(Loss) on valuation |
| Deutsche Bank AG | 4/15/2014 | 4/14/2015 | KRW | 14,585,000 | EUR | 10,000,000 | ₩ 1,153,836 |
| Standard Chartered | 4/15/2014 | 4/14/2015 | KRW | 14,585,000 | EUR | 10,000,000 | 1,153,836 |
| Credit Suisse | 4/15/2014 | 4/14/2015 | KRW | 43,755,000 | EUR | 30,000,000 | 3,461,507 |
| Deutsche Bank AG | 12/30/2014 | 12/30/2015 | KRW | 11,084,000 | USD | 10,000,000 | (14,475) |
| Standard Chartered | 12/30/2014 | 12/30/2015 | KRW | 11,084,000 | USD | 10,000,000 | (14,475) |
| Credit Suisse | 12/30/2014 | 12/30/2015 | KRW | 22,168,000 | USD | 20,000,000 | (28,950) |
| Citi Bank | 9/4/2014 | 8/19/2015 | USD | 30,000,000 | CNY | 187,770,000 | 291,516 |
| Citi Bank | 12/31/2014 | 11/12/2015 | USD | 30,000,000 | CNY | 190,365,000 | (2,946) |
| JP Morgan | 7/25/2014 | 1/20/2015 | USD | 775,190 | CNH | 4,851,447 | (3,737) |
| Deutsche Bank AG | 7/30/2014 | 1/20/2015 | USD | 1,075,274 | CNH | 6,720,462 | (3,657) |
| JP Morgan | 8/5/2014 | 1/28/2015 | USD | 1,198,444 | CNH | 7,483,445 | (1,999) |
| Deutsche Bank AG | 8/13/2014 | 2/12/2015 | USD | 358,628 | CNH | 2,235,689 | 560 |
| JP Morgan | 8/19/2014 | 2/12/2015 | USD | 867,423 | CNH | 5,385,137 | 5,130 |
| Deutsche Bank AG | 9/2/2014 | 2/27/2015 | USD | 998,854 | CNH | 6,211,574 | 5,782 |
| Deutsche Bank AG | 9/10/2014 | 3/5/2015 | USD | 668,614 | CNH | 4,150,423 | 5,569 |
| JP Morgan | 9/16/2014 | 3/13/2015 | USD | 709,781 | CNH | 4,427,189 | 2,898 |
| Deutsche Bank AG | 9/19/2014 | 3/13/2015 | USD | 875,789 | CNH | 5,451,347 | 5,477 |
| JP Morgan | 9/25/2014 | 3/12/2015 | USD | 173,701 | CNH | 1,080,765 | 1,144 |
| JP Morgan | 9/25/2014 | 3/26/2015 | USD | 173,701 | CNH | 1,080,765 | 1,365 |
| Deutsche Bank AG | 10/8/2014 | 3/26/2015 | USD | 515,498 | CNH | 3,204,853 | 4,484 |
| JP Morgan | 10/16/2014 | 4/16/2015 | USD | 696,847 | CNH | 4,330,483 | 7,645 |
| JP Morgan | 10/17/2014 | 4/14/2015 | USD | 908,567 | CNH | 5,655,194 | 8,315 |
| Deutsche Bank AG | 10/21/2014 | 4/17/2015 | USD | 348,218 | CNH | 2,162,048 | 4,169 |
| JP Morgan | 10/24/2014 | 4/17/2015 | USD | 348,218 | CNH | 2,162,327 | 4,122 |
| Deutsche Bank AG | 11/4/2014 | 4/17/2015 | USD | 327,364 | CNH | 2,031,458 | 4,105 |
| Deutsche Bank AG | 11/6/2014 | 5/8/2015 | USD | 294,628 | CNH | 1,830,139 | 3,878 |
| JP Morgan | 11/10/2014 | 5/15/2015 | USD | 654,932 | CNH | 4,073,742 | 8,062 |
| JP Morgan | 11/20/2014 | 5/19/2015 | USD | 528,576 | CNH | 3,284,571 | 7,214 |
| JP Morgan | 11/20/2014 | 5/15/2015 | USD | 327,568 | CNH | 2,035,506 | 4,367 |
| JP Morgan | 12/29/2014 | 6/26/2015 | USD | 1,238,366 | CNH | 7,842,574 | (3,983) |
| Total | | | | | | | ₩ 6,070,759 |

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, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Borrowings (floating rate) | ₩ 1,289,238,057 | ₩ 1,064,984,890 |

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, 2014 | ₩ | (6,442,623) | ₩ | (6,442,623) | ₩ | 6,442,623 | ₩ | 6,442,623 |
| December 31, 2013 | ₩ | (5,324,924) | ₩ | (5,324,924) | ₩ | 5,324,924 | ₩ | 5,324,924 |

For the year ended December 31, 2014, 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 and 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, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Within a year | 1–5 years | After 5 years | Total |
| Interest free: | | | | |
| Trade payables | ₩ 488,482,047 | ₩ - | ₩ - | ₩ 488,482,047 |
| Other accounts payable | 361,159,565 | - | - | 361,159,565 |
| Accrued expenses | 141,134,185 | - | - | 141,134,185 |
| Rental deposits | - | 4,773,506 | - | 4,773,506 |
| Floating rate financial instrument: | | | | |
| Short-term borrowings | 593,421,931 | - | - | 593,421,931 |
| Long-term borrowings | 301,776,959 | 306,103,167 | - | 607,880,126 |
| Debentures | - | 54,960,000 | 32,976,000 | 87,936,000 |
| Fixed rate financial instrument: | | | | |
| Short-term borrowings | 868,934,412 | - | - | 868,934,412 |
| Long-term borrowings | - | 60,594,368 | 800,000 | 61,394,368 |
| Debentures | 80,000,000 | 123,169,000 | - | 203,169,000 |
| Total | ₩ 2,834,909,099 | ₩ 549,600,041 | ₩ 33,776,000 | ₩ 3,418,285,140 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Within a year | 1–5 years | After 5 years | Total |
| Interest free: | | | | |
| 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 |
| Floating rate financial instrument: | | | | |
| Short-term borrowings | 515,892,327 | - | - | 515,892,327 |
| Long-term borrowings | - | 549,092,563 | - | 549,092,563 |
| Fixed rate financial instrument: | | | | |
| 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 |

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, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Within a year | 1–5 years | After 5 years | Total |
| Interest free: | | | | |
| Trade receivables | ₩ 1,070,793,183 | ₩ - | ₩ - | ₩ 1,070,793,183 |
| Other accounts receivable | 112,715,964 | - | - | 112,715,964 |
| Accrued income | 23,440,684 | - | - | 23,440,684 |
| Leasehold deposits provided | - | 10,597,341 | - | 10,597,341 |
| Deposits of acceptances and guarantees | 2,378,956 | - | - | 2,378,956 |
| Long-term financial instruments | - | - | 64,114 | 64,114 |
| Fixed rate financial instrument: | | | | |
| Cash and cash equivalents | 725,184,392 | - | - | 725,184,392 |
| Financial assets AFS | - | - | 3,490,327 | 3,490,327 |
| Short-term financial assets | 446,827,604 | - | - | 446,827,604 |
| Short-term loans | 542,393 | - | - | 542,393 |
| Long-term loans | - | 6,030,359 | - | 6,030,359 |
| Total | ₩ 2,381,883,176 | ₩ 16,627,700 | ₩ 3,554,441 | ₩ 2,402,065,317 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Within a year | 1–5 years | After 5 years | Total |
| Interest free: | | | | |
| 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 |
| Fixed rate financial instrument: | | | | |
| 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 | ₩ 2,358,160,080 | ₩ 15,044,367 | ₩ 71,909 | ₩ 2,373,276,356 |

(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, 2014 and 2013, are as follows (Korean won in thousands):

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets AFS | | | | |
| Marketable equity securities | ₩ 2,478,492 | ₩ - | ₩ - | ₩ 2,478,492 |
| Derivative financial assets | - | 6,145,322 | - | 6,145,322 |
| Derivative financial liabilities | - | 60,954 | - | 60,954 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets AFS | | | | |
| Marketable equity securities | ₩ 2,075,206 | ₩ - | ₩ - | ₩ 2,075,206 |

(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, 2014 and 2013 are categorized as follows (Korean won in thousands).

| Book value | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Assets (*1) | ₩ 559,996,866 | ₩ 656,779,423 |
| Associated liabilities | ₩ 559,996,866 | ₩ 656,779,423 |

(*1) In case 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, 2014, 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 | 273,140,000 |
| | | USD | 153,200 |
| | | CNY | 633,270 |

(2) Details of insurance products

As of December 31, 2014, details of insurance provided to the Group are as follows (Korean won in thousands):

| Product | Property insured | Sum insured | | Beneficiary |
|---|---|---|---|---|
| Property All Risks | Buildings | ₩ | 7,873,202,554 | The Group |
| Property All Risks | Inventories | | 1,097,448,541 | The Group |
| Property All Risks | Machinery and equipment | | 3,117,696,265 | The Group |
| Total | | ₩ | 12,088,347,360 | |

The Group is insured against potential future claims that may be brought out under the Product Liability Act in the Republic of Korea, which got effective as of 1 July 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: ₩138,140,000 thousand and USD 43,200 thousand). In addition, vehicles are insured against a general and liability insurance policy.

(3) Purchase agreement

As of December 31, 2014, 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, 2014, 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.

(4) Pending litigations

The Group is named as a defendant in various legal actions arising from normal business matters, including product liability. As of December 31, 2014, the outcome of these matters is uncertain. The estimated loss of ₩7,144,800 thousand (USD 6,500 thousand) expected with respect to the litigations is provided as product liability allowance.

The Group recognized the principal and interest of three cases regarding indemnification for damages and overtime labor pay, 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 ₩275,497 thousand.

Additionally, three outstanding cases as a plaintiff amount to ₩213,656 thousand and 12 outstanding cases as a defendant amount to ₩9,316,339 thousand including ordinary wage cases. The results of these matters are unpredictable at the end of the reporting period.

(5) Share purchase agreement

The Company plans to acquire Halla Visteon Climate Control Corp.'s 20,806,200 shares (19.49% of ownership) from VIHI LLC, which is the largest shareholder, unlisted foreign corporation.

a) Details of Shares Purchase Agreement
- Seller : Visteon Corp. and VIHI LLC.
- Purchaser : Han&co Autoholdings LLC. and Hankook Tire Co. Ltd.
- Contract date: 2014.12.17
- Closing date of deal :
  (i) Later date among the date after 15 business days meet certain prerequisites and the date after 5 business days meet other prerequisites, or
  (ii) the agreed date between the seller and purchaser
-Number of target shares by purchaser
  (i) Han&co Autoholdings LLC. : 53,913,800 shares (50.50%)
  (ii) Hankook Tire Co. Ltd. : 20,806,200 shares (19.49%)

b) Contract between purchasers
A contract that has included right of first refusal of the Company; drag-along right of Han&co Autoholdings LLC. and tag-along right of the Company have been made among purchasers.

## 38. SUBSEQUENT EVENTS:

(1) The Group incorporated a new corporation by the resolution of the management committee as of February 26, 2015 (Korean won in thousands):

| | Capital stock |
|---|---|
| Hankook Donggeurami Partners Co., LTD. | ₩ 900,000 |

(2) The Company issued debentures by the resolution of the board of directors as of March 2, 2015. Details are as follows (Korean won in thousands):

| Classification | Par value | Issuing total | Annual interest rate (%) | Maturity dates |
|---|---|---|---|---|
| The 83-1st debentures payable | ₩ 250,000,000 | ₩ 250,000,000 | 2.05% | 2018/3/11 |
| The 83-2nd debentures payable | 250,000,000 | 250,000,000 | 2.23% | 2020/3/11 |
| Total | ₩ 500,000,000 | ₩ 500,000,000 | | |