



HANKOOK TIRE CO., LTD. AND ITS SUBSIDIARIES

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

Audit.Tax.Consulting.Financial Advisory

Independent Auditors' Report

English Translation of a Report Originally Issued in Korean

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

We have audited the accompanying consolidated financial statements of Hankook Tire Co., Ltd. and its subsidiaries (collectively, the "Group"). The consolidated financial statements consist of the consolidated statement of financial position as of December 31, 2012, and the related consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows, all expressed in Korean won, for the four months starting from September 1, 2012 to December 31, 2012, all expressed in Korean won. The Group's management is responsible for the preparation and fair presentation of the consolidated financial statements and our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of other subsidiaries whose financial statements represent 51.9% of the Group's consolidated total assets as of December 31, 2012. Those subsidiaries represent 62.9% of the Group's consolidated total sales for the four months ended December 31, 2012.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2012, and its results of operations and its cash flows for the four months starting from September 1, 2012 to December 31, 2012, in conformity with Korean International Financial Reporting Standards.

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

Deloitte Anjin LLC

March 14, 2013

Notice to Readers

This report is effective as of March 14, 2013, 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 FOUR MONTHS ENDED DECEMBER 31, 2012**

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

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

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012

	Notes		2012
			(Korean won in thousands)
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	34,35	₩	485,612,512
Short-term financial assets	3,33,35		194,283,138
Trade and other accounts receivable	4,14,33,35		1,184,405,376
Inventories	7,35		1,391,723,116
Other financial assets	6,35		1,718,890
Other current assets	8		79,123,789
TOTAL CURRENT ASSETS			3,336,866,821
NON-CURRENT ASSETS:			
Long-term financial assets	3,35		94,550
AFS financial assets	5,35		2,776,458
Property, plant and equipment	10,36		3,571,590,662
Investment property	11		50,113,341
Intangible assets	12		116,615,826
Other financial assets	6,35		14,216,853
Other non-current assets	8,36		2,461,283
Deferred tax assets	29		87,718,650
TOTAL NON-CURRENT ASSETS			3,845,587,623
TOTAL ASSETS		₩	7,182,454,444

(Continued)

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

	Notes		2012
			(Korean won in thousands)
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES:			
Trade and other accounts payable	13,33,35	₩	939,616,371
Short-term borrowings and current portions of long-term financial liabilities	14,35		1,933,292,680
Current tax liabilities			59,237,169
Other financial liabilities	15,35		303,164
Other current liabilities	18		58,622,840
TOTAL CURRENT LIABILITIES			2,991,072,224
NON-CURRENT LIABILITIES:			
Long-term borrowings and debentures	14,35		883,936,980
Retirement benefit obligation	16		16,223,863
Other provisions	17,35		65,883,993
Other financial liabilities	15,35		3,851,763
TOTAL NON-CURRENT LIABILITIES			969,896,599
TOTAL LIABILITIES			3,960,968,823
SHAREHOLDERS' EQUITY			
Capital stock	19		61,937,535
Other paid-in capital	19,20		2,992,377,720
Retained earnings	21		211,566,946
Other equity	22		(53,812,775)
Non-controlling interest			9,416,195
TOTAL SHAREHOLDERS' EQUITY			3,221,485,621
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		₩	7,182,454,444

(Concluded)

See accompanying notes to consolidated financial statements.

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FOUR MONTHS ENDED DECEMBER 31, 2012

	<u>Notes</u>	<u>2012</u>
		(Korean won in thousands, except for income per share data)
SALES	23,32,33	₩ 2,317,223,404
COST OF SALES	23,30,33	<u>(1,561,773,167)</u>
GROSS PROFIT		<u>755,450,237</u>
Selling expenses	24,30,33	(230,195,508)
Administrative expenses	24,30,33	(169,104,209)
Research and development expenses	30	<u>(47,558,338)</u>
OPERATING INCOME		<u>308,592,182</u>
Financial income	25	13,767,112
Financial expense	26	(50,928,604)
Other operating income	27	110,828,640
Other operating expense	28	<u>(88,730,974)</u>
INCOME BEFORE INCOME TAX EXPENSE		<u>293,528,356</u>
INCOME TAX EXPENSE	29	<u>(62,514,281)</u>
NET INCOME		<u>₩ 231,014,075</u>
OTHER COMPREHENSIVE INCOME(LOSS)		₩ (74,106,831)
Items not to be reclassified subsequently to profit or loss:		
Actuarial losses on retirement benefit obligation	16,21	(26,536,452)
Tax effects on the other comprehensive income		<u>6,413,977</u>
		<u>₩ (20,122,475)</u>
Items to be reclassified subsequently to profit or loss:		
Gains on valuation of AFS financial assets	22	₩ (36,522)
Loss on valuation of foreign exchange forward contract	22	(303,164)
Exchange differences on translating foreign operations	22	(52,643,140)
Tax effects on the other comprehensive income	29	<u>(1,001,530)</u>
		<u>₩ (53,984,356)</u>
COMPREHENSIVE INCOME		<u>₩ 156,907,244</u>
NET INCOME ATTRIBUTABLE TO:		
Owners of the Company		₩ 231,568,971
Non-controlling interests		(554,896)

(Continued)

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

	Notes	2012
		(Korean won in thousands, except for income per share data)
COMPREHENSIVE INCOME		
ATTRIBUTABLE TO:		
Owners of the Company		₩ 157,754,172
Non-controlling interests		(846,928)
 NET INCOME PER SHARE (Korean won)	 31	
Basic and diluted income per share		₩ 1,870

(Concluded)

See accompanying notes to consolidated financial statements.

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

(Korean won in thousands)

	<u>Other paid-in capital</u>				<u>Retained earnings</u>	<u>Other</u>	<u>Controlling equity</u>	<u>Non-controlling interests</u>	<u>Total</u>
	<u>Capital stock</u>	<u>Additional paid-in capital</u>	<u>Treasury stocks</u>						
As of September 1, 2012	₩ 61,937,535	₩ 2,993,465,738	₩ -	₩ -	₩ -	₩ -	₩ 3,055,403,273	₩ 10,263,122	₩ 3,065,666,395
Comprehensive income									
Net income	-	-	-	231,568,971	-	-	231,568,971	(554,896)	231,014,075
Gain on valuation of AFS financial assets, net	-	-	-	-	(38,289)	(38,289)	(38,289)	278	(38,011)
Loss on valuation of foreign exchange forward contract, net	-	-	-	-	(229,798)	(229,798)	(229,798)	-	(229,798)
Exchange differences on translating foreign operations	-	-	-	-	(53,544,688)	(53,544,688)	(53,544,688)	(171,859)	(53,716,547)
Actuarial losses on retirement benefit obligation	-	-	-	(20,002,025)	-	(20,002,025)	(20,002,025)	(120,450)	(20,122,475)
Acquisition of treasury stock	-	-	(1,088,018)	-	-	(1,088,018)	(1,088,018)	-	(1,088,018)
As of December 31, 2012	<u>₩ 61,937,535</u>	<u>₩ 2,993,465,738</u>	<u>₩ (1,088,018)</u>	<u>₩ 211,566,946</u>	<u>₩ (53,812,775)</u>	<u>₩ (53,812,775)</u>	<u>₩ 3,212,069,426</u>	<u>₩ 9,416,195</u>	<u>₩ 3,221,485,621</u>

See accompanying notes to consolidated financial statements.

HANKOOK TIRE CO., LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FOUR MONTHS ENDED DECEMBER 31, 2012

		2012
		(Korean won in thousands)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash generated from operating activities		
Net income	₩	231,014,075
Adjustment		
Income tax expense		62,514,281
Interest income		(4,997,222)
Interest expense		24,403,520
Gain on foreign currency translation		(38,033,436)
Loss on foreign currency translation		39,408,915
Loss on disposal of available-for-sale securities		3,902
Loss on valuation of inventories		4,736,879
Loss on disposal of inventories		822,817
Loss on disposal of trade receivable		807,919
Reversal of allowance for doubtful accounts		(2,053,664)
Other provision for doubtful accounts		1,603,133
Gain on disposal of property, plant and equipment		(614,706)
Loss on disposal of property, plant and equipment		4,014,335
Loss on property abandoned		1,999,564
Depreciation of property, plant and equipment		133,335,873
Depreciation of investment property		82,200
Amortization of intangible assets		1,748,436
Provision for other allowance		3,520
Sales damage expense		10,550,351
Employee benefits		657,823
Provision for severance benefits		12,532,710
		253,527,150
Changes in operating assets and liabilities:		
Decrease of short-term financial assets		54,805,341
Decrease in trade receivables		152,383,307
Increase in other accounts receivables		(32,044,617)
Decrease in accrued income		54,164,181
Increase in advance payments		(3,995,993)
Increase in prepaid expenses		(7,122,872)
Decrease in prepaid value added tax		6,453,865
Decrease in deposits of acceptances and guarantees		26,702
Increase in inventories		(36,066,014)
Increase in leasehold deposits provided		(2,151,321)
Decrease in other current assets		2,321,616
Decrease in other non-current assets		5,523,228
Decrease in trade payables		(77,794,775)
Increase in accounts payable		146,172,487
Increase in accrued income taxes		15,240,193
Decrease in accrued expenses		(107,211,930)
Decrease in advances from customers		(25,214,105)
Decrease in deposits		(26,360,281)
Decrease in unearned revenue		(4,521,325)
Decrease in other current liabilities		(2,843,360)

(Continued)

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

	2012
	(Korean won in thousands)
Payment of severance indemnities	(979,041)
Decrease in plan assets	(49,402,537)
Increase in rental deposits	71,222
Decrease in derivatives	(266,078)
Compensation for sales damages	(10,753,113)
	50,434,780
	534,976,005
Interest revenue received	6,908,764
Interest expense paid	(24,468,238)
Income tax paid	(23,551,858)
Net cash provided by operating activities:	493,864,673
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of AFS securities	(129,789)
Disposal of AFS securities	118,763
Acquisition of property, plant and equipment	(207,041,832)
Disposal of property, plant and equipment	7,409,866
Acquisition of intangible assets	(3,311,353)
Disposal of other financial assets	327,120
Net cash used in investing activities:	₩ (202,627,225)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from short-term borrowings	400,037,511
Proceeds from long-term borrowings	11,098,802
Repayment of short-term borrowings	(779,323,565)
Acquisition of treasury stock	(1,088,018)
Net cash used in financing activities:	(369,275,270)
NET DECREASE	
IN CASH AND CASH EQUIVALENTS	(78,037,822)
CASH AND CASH EQUIVALENTS	
ACQUIRED BY SPIN-OFF	569,258,142
CHANGES IN CASH AND CASH EQUIVALENTS	
DUE TO FOREIGN CURRENCY TRANSLATION	(5,607,808)
CASH AND CASH EQUIVALENTS ,	
END OF THE YEAR	₩ 485,612,512

(Concluded)

See accompanying notes to consolidated financial statements.

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

1. THE GROUP:

Hankook Tire Co., Ltd.(Parent Company, 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 Group offered its shares for public ownership and all of the Group’s shares were registered with the Korea Exchange. The Group’s headquarters are located at Kangnam-Gu, Seoul and two manufacturing factories are located in Daejeon and Kum-san.

As of December 31, 2012, the Group’s shareholders are as follows:

	<u>Number of shares owned</u>	<u>Percentage of ownership (%)</u>
Yang Rai Cho	19,807,897	15.99
Hyun Bum Cho	8,789,241	7.10
Hyun Shick Cho	7,177,241	5.79
Hankook Tire Worldwide Co., Ltd.	5,697,653	4.60
Others ^(*)	82,403,037	66.52
	<u>123,875,069</u>	<u>100.00</u>

(*) Including 22,388 shares in treasury stock as of December 31, 2012.

Meanwhile, the Group's consolidated financial statements for annual shareholders’ meeting have been confirmed by the board of directors on February 26, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES:

(1) Basis of preparing consolidated financial statements

The Group has adopted the Korean International Financial Reporting Standards (“K-IFRS”) for the annual period beginning on September 1, 2012.

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:

K- IFRS 1107 *Financial Instruments: Disclosures – Transfers of Financial Assets*

The Group may have transferred financial assets in such a way that part or all of the transferred financial assets do not qualify for derecognition. The amendments to K-IFRS 1107 increase the disclosure requirements for transactions involving transfers of financial assets in order to provide greater transparency around the nature of the transferred assets, the nature of the risks and rewards of ownership to which the Group is exposed, description of the nature of the relationship between the transferred assets and the associated liabilities and carrying value of the associated liabilities.

When the Group continues its involvement on the transferred assets although the transferred assets are derecognized in their entirety, the Group discloses the carrying amounts of the transferred assets and the associated liabilities and information showing the maximum exposure to loss. The disclosures due to the application of these amendments are disclosed in Note 35.

K- IFRS 1001 Presentation of Financial Statement

The Group changed the calculation method of operating income in accordance with the revision of the standards, whereby the operating income is calculated by subtracting the cost of sales and selling and administrative expenses from sales. Operating income classification changing due to the change in accounting policy was applied retroactively and a comparative income statement is rewritten to reflect changes according to retroactive application.

Amendments to K-IFRS 1012 Deferred Tax – Recovery of Underlying Assets

The amendments to K-IFRS 1012 provide an exception to the general principles in K-IFRS 1012 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the Group expects to recover the carrying amount of an asset. Investment property or a non-depreciable asset measured using the revaluation model in K-IFRS 1016 *Property, Plant and Equipment* is presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. The Group does not anticipate that these amendments referred above will have a significant effect on the Group's financial statements.

K-IFRS 2114 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The amendments to K-IFRS 2114 require recognizing the surplus of the paid contribution minus the defined benefit obligation. The Group does not anticipate that the amendments referred above will have a significant effect on the Group's consolidated financial statements.

2) Enactments and amendments of the K-IFRS

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

Amendments to K-IFRS 1032 Financial Instruments: Presentation

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

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

Amendments to K-IFRS 1107 Financial Instruments: Disclosures

The amendments to K-IFRS 1107 are mainly focusing on presentation of the offset between financial assets and financial liabilities. The amendments to K-IFRS 1107 are effective for annual periods beginning on or after January 1, 2013. The Group is in the process of evaluating the impact on the financial statements upon the adoption of amendments.

Amendments to K-IFRS 1110 Consolidated Financial Statements

The amendments to K-IFRS 1110 include a new definition of control that contains three elements: (a) power over an investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's return. This standard is effective for annual periods beginning on or after January 1, 2013. The Group is in the process of evaluating the impact on the consolidated financial statements upon the adoption of amendments.

K-IFRS 1113 Fair Value Measurement

K-IFRS 1113 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. K-IFRS 1113 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Group is considering the effect on the its consolidated financial statements

(2) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Group and entities (including special purpose entities) controlled by the Group (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

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

All intra group transactions, balances, 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 Group

When the Group loses control of a subsidiary, the profit 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 Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings).

The fair value of any investment retained in the former subsidiary at the date when control is lost is recognized as the fair value on initial recognition for subsequent accounting under K-IFRS 1039 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

(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 acquisition-date 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 and K-IFRS 1019 *Employee Benefits* respectively;

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement-period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with K-IFRS 1039 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 (i.e., the date when the Group obtains control) 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 (equity-accounted investees)

An associate is an entity over which the group has significant influence, being the power to participate in the financial and operating policy decisions of the investee (but not control or joint control). Influence exerted (or presumed to be exerted) by a firm over a second firm whose 20 to 50 percent of shares are owned by the first firm. Significant influence usually translates into participation in the financial and operating policies without necessarily having full control over them.

The results and assets and liabilities of associates 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 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. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), 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.

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 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.

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. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with K-IFRS 1036, *Impairment of Assets*, as a single asset 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.

When the Group transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(5) 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 continued 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.

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.

(6) 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

The Group recognizes revenue from the sale of goods when the significant risks and rewards of ownership of the goods are transferred to the buyer. 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. The stage of completion of the contract is determined as follows:

- installation fees are recognized by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognized by reference to the proportion of the total cost of providing the servicing for the product sold; and
- revenue from time and material contracts is recognized at the contractual rates as labor hours and direct expenses are incurred.

3) Royalties

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

4) Dividend and interest income

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

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

5) Rental income

The Group's policy for recognition of revenue from operating leases is described in Note 2 (7) below.

(7) Lease

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

1) The Group as lessor

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

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

2) The Group as lessee

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets; in which case, they are capitalized in accordance with the Group's general policy (see Note 2 (7)) 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.

(8) Foreign currencies

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

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

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

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2, (21) below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in KRW, using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period; in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests, as appropriate).

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

In the case of a partial disposal (i.e., no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests in equity and are not recognized in profit or loss. For all other partial disposals (i.e., of associates or jointly controlled entities not involving a change in accounting basis), the proportionate share of the accumulated exchange differences is reclassified to profit or loss. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(9) 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.

(10) 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.

(11) 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. The present value of the retirement benefit is calculated using the interest rate of fine securities whose maturity is similar to the payment date. However, if there is no proper market for those securities, the Group uses market interest rate of government securities. The profit or loss incurred from changes in the assumptions and the difference between actual and assumption are recognized in other comprehensive income in the consolidated statement of comprehensive income.

The Group allocates recognized actuarial gains and losses as retained earnings, not reclassified to gains and losses. Past service cost is recognized immediately to the extent that the benefits are already vested and, otherwise, is amortized on the straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation, as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

(12) Income tax

Income tax consists of current tax 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 consolidated 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. Also, the Group does not recognize deferred tax on the initial transactions that do not affect the taxable income and accounting income.

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 be applied 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.

3) Current and deferred tax for the year

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

(13) Property, plant and equipment

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

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

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

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

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

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

In addition, when an acquisition of a tangible asset occurs free of charge or at a value less than fair market value due to government subsidy, the acquisition cost, less government subsidy, is recorded as the acquisition cost upon initial acquisition and depreciation expense is calculated based on the carrying amount.

(14) 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 measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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 that 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.

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 Group reviews the depreciation method, the estimated useful lives and residual values of investment property 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.

In addition, when an acquisition of a tangible asset occurs free of charge or at a value less than fair market value due to government subsidy, the acquisition cost, less government subsidy, is recorded as the acquisition cost upon initial acquisition and depreciation expense is calculated based on the carrying amount.

(15) Intangible assets

1) Intangible assets acquired separately

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

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

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

2) Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- improvement of technical feasibility and development of new product and
- the ability to measure reliably the expenditure 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.

(16) 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

(17) Inventories

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

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

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

The carrying amount of inventories sold in the period and the amount of any write-down of inventories to net realizable value and all losses of inventories in the period, less the amount of any reversal in the period of any write-down of the inventories, arising from an increase in net realizable value, is recognized as expense during that period.

(18) 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).

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 that period.

(19) Financial assets

All financial assets are recognized and derecognized on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ("FVTPL"), which are initially measured at fair value.

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

Non-derivative financial assets that are not classified as at HTM or held for trading, designated as at FVTPL, or loans and receivables are classified as at financial assets AFS. Financial assets can be designated as AFS on initial recognition. Financial assets AFS are initially recognized at fair value plus directly related transaction costs. They are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve 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 assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate 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.

Unquoted AFS financial assets whose fair value cannot be measured reliably and derivative assets linked with unquoted equity financial assets that pay for the equity financial assets are carried at acquisition cost, less impairment. Also, with respect to AFS debt securities, if, in a subsequent period, the amount of the fair value increases and the increase can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss.

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

For listed and unlisted equity investments classified as AFS, 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, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could 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 market of financial assets extinct due to financial difficulty,

For certain categories of financial assets, 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.

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 that period.

With the exception of AFS equity instruments, 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,

With respect to 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.

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 recognize a collateralized borrowing for the proceeds received.

If the Group derecognizes financial assets entirely, the difference among proceeds received, carrying value of the assets accumulated gain or loss in other comprehensive income is recognized as profit or loss.

If an entity neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset and retains control of the transferred asset, the entity continues to recognize the transferred asset to the extent of its continuing involvement. The extent of the entity's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. The Group allocates the previous carrying amount to fair value of the assets and recognizes as profit or loss the difference among proceeds received, allocated carrying value and allocated accumulated profit or loss.

(20) 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.

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. In addition, the conversion option classified as equity will be transferred to share premium/other equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

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

4) Financial liabilities

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

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

5) Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a 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 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 income.

6) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

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 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

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, and only when, the Group's obligations are discharged, canceled or they expire.

(21) 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, etc.

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 and 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 other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host 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 with respect to 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 Group 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 consolidated statement of comprehensive income relating to the hedged item.

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. 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.

(22) 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) Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

1) Defined benefit plan

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial liabilities are initially measured by actuarial calculation every year end. In order to use actuarial calculation, the Group is required to estimate assumptions on the discount rate, future wage increase rate, expected earning rate on the plan assets. Defined Benefit Plan retains uncertainty as it requires estimation on long period of time.

2) Useful lives of property, plant and equipment

As described in Note 2 (13) above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

3. RESTRICTED FINANCIAL ASSETS:

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

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

4. TRADE AND OTHER RECEIVABLES:

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

	December 31, 2012		
	Gross amount	Less: Allowance for bad debt	Net amount
Trade receivables	₩ 1,065,746,567	₩ (13,563,358)	₩ 1,052,183,209
Other accounts receivable	118,904,373	(766,359)	118,138,014
Accrued income	14,084,153	-	14,084,153
Subtotal	1,198,735,093	(14,329,717)	1,184,405,376
Default note receivables	59,409	(59,409)	-
Subtotal	59,409	(59,409)	-
Total	₩ 1,198,794,502	₩ (14,389,126)	₩ 1,184,405,376

(2) Credit risk and allowance for bad debt

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

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

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

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

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

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

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

5. FINANCIAL ASSETS AT FVTPL AND AFS SECURITIES:

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

	December 31, 2012	
Equity instrument:		
Listed securities	₩	1,771,903
Unlisted securities		1,004,555
Total	₩	2,776,458

6. OTHER FINANCIAL ASSETS:

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

	December 31, 2012	
	Current	Non-current
Loans	₩ 474,467	₩ 4,465,433
Deposits provided	1,244,423	9,751,420
Total	₩ 1,718,890	₩ 14,216,853

7. INVENTORIES:

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

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

8. OTHER ASSETS:

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

	December 31, 2012	
	Current	Non-current
Advance payments	₩ 22,994,351	₩ -
Prepaid expenses	53,454,191	-
Others	2,675,247	2,461,283
Total	₩ 79,123,789	₩ 2,461,283

9. SUBSIDIARIES:

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

Subsidiaries	Primary business	Location	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	Hungery	100.00	Dec.31
Hankook Tire Budapest Kereskedelmi Kft	Sales of tires	Hungery	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 Budapest Kereskedelmi Kft.,Sp.zo.o. 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

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

Subsidiaries	Assets	Liabilities	Sales	Net income
Hankook Tire America Corp.	458,587,122	332,658,585	414,222,066	5,673,580
Hankook Tire Canada Corp.	52,444,068	41,061,659	46,679,752	75,984
Hankook Tire Europe Holdings B.V.	239,116,419	3,191	-	24,694
Hankook Tire Netherlands B.V.	88,844,705	77,407,824	69,655,830	240,490
Hankook Tyre U.K. Ltd.	104,998,937	96,836,424	63,163,854	92,772
Hankook Reifen Deutschland GmbH	222,529,321	204,247,595	129,241,050	(614,803)
Hankook Tire France SARL	36,228,390	31,250,428	37,264,656	655,314
Hankook Tire Italia S.R.L	84,961,735	80,262,031	49,925,050	108,666
Hankook Espana S.A.	50,809,103	46,522,614	33,095,618	(10,359)
Hankook Tire Europe GmbH	30,779,769	28,314,682	7,590,719	57,056
Hankook Tire Hungary Ltd.	960,829,072	624,211,375	249,227,021	42,309,403
Hankook Tire Budapest Kereskedelmi Kft	29,262,442	24,154,441	34,967,944	242,234
Hankook Tire Rus LLC	1,069,265	333,994	1,222,009	(891,673)
Hankook Tire Japan Corp.	40,952,676	38,104,580	40,060,900	761,557
Hankook Tyre Australia Pty., Ltd.	46,352,740	43,357,698	26,534,443	313,591
Hankook Tire China Co., Ltd.	1,321,436,408	690,835,307	322,983,322	60,486,545
Jiangsu Hankook Tire Co., Ltd.	833,929,947	461,103,777	281,909,298	18,864,976
Shanghai Hankook Tire Sales Co., Ltd.	334,141,697	358,303,843	395,940,812	3,418,368
Daehwa Engineering & Machinery Co., Ltd	61,822,279	27,287,142	41,920,193	502,790
Hankook Tire DE Mexico, S.A. DE C.V.	23,316,080	22,557,751	26,904,375	(30,826)
Chongqing Hankooktire Co., Ltd.	299,859,810	212,579,349	6,284,293	(9,802,852)
Hanyang Tire Sales Co., Ltd.	1,553,082	2,172,896	723,382	63,611
PT Hankook Tire Indonesia	395,407,340	272,901,154	7,097,160	(6,647,790)
MKT Holdings Co., Ltd.	66,220,685	44,884,034	-	(960,789)
MK Mold (Jiaxing) Co., Ltd.	27,060,425	17,934,218	5,129,796	912,799
Hankook Tire Budapest Kereskedelmi Kft.,Sp.zo.o. Polish Branch	15,879,237	15,073,402	9,742,743	61,700
MK Technology Corp.	54,149,824	15,696,385	18,782,626	2,625,816
Hankook Tire Singapore PTE., Ltd.	57,693,929	57,010,700	353,252	98,214
Hankook Tire Malaysia SDN.BHD.	428,440	-	-	-

10. PROPERTY, PLANT AND EQUIPMENT:

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

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

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

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

(3) Pledged assets as collateral

As of December 31, 2012, 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 36). The Group has subscribed to property and comprehensive insurance for its buildings (see Note 36).

11. INVESTMENT PROPERTY:

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

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

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

	December 31, 2012					Ending balance
	Acquisition by spin-off	Acquisition	Disposal	Depreciation	Others	
Land	₩ 43,978,010	₩ -	₩ -	₩ -	₩ (4,761,018)	₩ 39,216,992
Buildings	17,178,043	-	-	(82,200)	(6,199,494)	10,896,349
Total	₩ 61,156,053	₩ -	₩ -	₩ (82,200)	₩ (10,960,512)	₩ 50,113,341

(3) Earnings and operating expenses from investment property for the four months ended December 31, 2012, are ₩415,767 thousand and ₩72,468 thousand, respectively.

(4) As of December 31, 2012, carrying amount of investment property is ₩50,113,341 thousand and the fair value is ₩53,749,334 thousand.

12. INTANGIBLE ASSETS:

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

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

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

	December 31, 2012					
	Acquisition by spin-off	Acquisition	Disposal	Amortization	Others	Ending balance
Industrial rights	₩ 2,199,473	₩ 958	₩ -	₩ 323,883	₩ 311,184	₩ 2,187,732
Other intangible assets	88,671,728	3,310,395	-	1,424,553	(3,522,599)	87,034,971
Goodwill	28,479,872	-	-	-	(1,086,749)	27,393,123
Total	₩119,351,073	₩ 3,311,353	₩ -	₩ 1,748,436	₩ (4,298,164)	₩ 116,615,826

(3) The parent company succeeded 99.9% shares of MK Technology Corp. which had been purchased before spin-off by MKT Holdings Co., Ltd. As of December 31, 2011, the Group recognized ₩28,479,872 thousand provisionally as goodwill. Finally completed financial effect of the business combination for the current period is as follows (Korean won in thousands):

	Amount
Consideration for merger	₩ 61,950,000
Deduction: Fair value of identifiable acquired assets	(34,556,877)
Goodwill	₩ 27,393,123

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

	Rate
Discount rate(weighted average capital cost)	12.3%
Permanent growth rate	0.0%

13. TRADE AND OTHER ACCOUNTS PAYABLE:

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

	December 31, 2012
Trade payables	₩ 389,674,803
Other accounts payable	469,189,933
Accrued expenses	80,751,635
Total	₩ 939,616,371

14. BORROWINGS:

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

	December 31, 2012	
	Current	Non-current
Short-term borrowings	₩ 1,858,478,772	₩ -
Long-term borrowings	74,813,908	734,455,576
Debentures	-	149,481,404
Total	₩ 1,933,292,680	₩ 883,936,980

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

	Lender	Annual interest rate (%)	December 31, 2012	
General loans	Bank of China and others	1.46–7.08	₩	874,332,388
Bank overdrafts	UniCredit and others	1.77–1.86		93,651,766
Transfer of trade receivables ^(*1)	Woori Bank and others	1.05–4.26		476,901,801
Usance	Kookmin Bank and others	1.52–4.30		276,656,047
Trade financing	Bank of China and others	3.76–3.81		136,936,770
	Total		₩	1,858,478,772

(*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, 2012, are as follows (Korean won in thousands):

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

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

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

15. OTHER FINANCIAL LIABILITIES:

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

	December 31, 2012	
	Current	Non-current
Foreign exchange forward liabilities	₩ 303,164	₩ -
Rental deposits	-	3,851,763
Total	₩ 303,164	₩ 3,851,763

16. RETIREMENT BENEFIT PLAN:

The most recent actuarial assessment of plan assets and defined benefit obligation was performed based on December 31, 2012 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, 2012, are as follows (Unit: %):

	December 31, 2012
Discount rate	3.39-4.43
Expected rate of return on plan assets	3.39-4.43

(2) The detail of post- employee benefit recognized in profit and loss for the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2012
Current service cost	₩ 11,906,829
Interest cost	2,506,744
Expected return on plan assets	(1,880,863)
Total	₩ 12,532,710

(3) As of December 31, 2012, amounts recognized in the consolidated statement of financial position related to retirement benefit obligation are as follows (Korean won in thousands):

	December 31, 2012
Present value of defined benefit obligation	₩ 194,129,149
Fair value of plan assets	(177,905,286)
Net retirement benefit obligation	₩ 16,223,863

(4) Changes in present value of defined benefit obligation for the four months ended December 31, 2012, are as follows (Korean won in thousands):

	2012
Acquisition by spin-off	₩ 154,113,376
Current service cost	11,906,829
Interest cost	2,506,744
Actuarial losses before tax	26,638,945
Benefit paid	(979,041)
Foreign currency translation	(57,704)
Ending balance	₩ 194,129,149

(5) Changes in plan assets for the four months ended December 31, 2012 are as follows (Korean won in thousands):

	2012	
Acquisition by spin-off	₩	126,519,393
Expected return on plan assets		1,880,863
Actuarial losses before tax		102,493
Changes in plan assets		49,402,537
Ending balance	₩	177,905,286

In addition, the actuarial losses on retirement benefit obligation recognized as other comprehensive income is ₩26,536,452 thousand (before deferred income tax effect) as of December 31, 2012.

(6) Details of plan assets and expected returns on plan assets as of December 31, 2012, are as follows(Korean won in thousands):

	Expected Return (%)	Fair value of the plan asset	
Debt instruments	3.39-4.43	₩	177,199,119
Funds converted to National Pension	-		706,167
Total		₩	177,905,286

Expected return on plan assets is a weighted average expect return of assets on plan assets. Management evaluated the expected return on the base of historical trend of yield and analysis of market forecast on the entire effective period of defined benefit obligation. Meanwhile, the actual gain on the plan assets is ₩1,983,356 thousand.

17. PROVISIONS:

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

	December 31, 2012		
	Current	Non-current	Total
Provision for product liabilities	₩ -	₩ 6,962,150	₩ 6,962,150
Provision for product warranties	-	44,431,316	44,431,316
Long-term debts for employees	-	14,262,133	14,262,133
Other provisions	-	228,394	228,394
Total	₩ -	₩ 65,883,993	₩ 65,883,993

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

	December 31, 2012						
	Changes					Current classification	
	Acquisition by spin-off	Loss on restoration	Decrease in restoration provisions	Foreign currency translation	Ending balance	Current	Non-current
Provision for product liabilities(*1)	₩ 9,076,800	₩ -	₩ (1,632,600)	₩ (482,050)	₩ 6,962,150	₩ -	₩ 6,962,150
Provision for product warranties(*2)	44,054,093	10,550,351	(9,120,513)	(1,052,615)	44,431,316	-	44,431,316
Long-term debts for employees	13,604,310	657,823	-	-	14,262,133	-	14,262,133
Other provisions(*3)	224,874	3,520	-	-	228,394	-	228,394
Total	₩ 66,960,077	₩ 11,211,694	₩(10,753,113)	₩ (1,534,665)	₩ 65,883,993	₩ -	₩ 65,883,993

- (*1) The Group recognized additional estimated cost as provision on the potential losses under product liability act
- (*2) The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Estimation is based on the past experience of provision for product warranties, but can be affected by other events relating to new materials, change on production process, 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 35)

18. OTHER LIABILITIES:

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

	December 31, 2012	
	Current	Non-current
Advance received	₩ 7,888,273	₩ -
Withholdings	7,295,234	-
Unearned revenue	41,354,815	-
Others	2,084,518	-
Total	₩ 58,622,840	₩ -

19. CAPITAL STOCK:

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

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

As of December 31, 2012, the Group holds 22,388 fractional shares in treasury, due to a spin-off, and records treasury stock as other paid-in capital

20. OTHER PAID-IN CAPITAL:

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

	December 31, 2012	
Paid-in capital in excess of par value	₩	2,993,465,738
Treasury stocks		(1,088,018)
Total	₩	2,992,377,720

21. RETAINED EARNINGS AND DIVIDENDS:

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

	December 31, 2012	
Legal reserve:		
Earned surplus reserve	₩	211,566,946

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

	<u>2012</u>	
Beginning balance	₩	-
Net income		231,568,971
Actuarial losses on defined benefit plans		(26,536,452)
Income tax effects		6,413,976
Changes in non-controlling interest		<u>120,451</u>
Ending balance	₩	<u>211,566,946</u>

- (3) Details of changes in actuarial gains (losses) on defined benefit plans for the four months ended December 31, 2012, are as follows (Korean won in thousands):

	<u>2012</u>	
Beginning balance	₩	-
Current changes		(26,536,453)
Income tax effects		6,413,977
Changes in non-controlling interest		<u>120,451</u>
Ending balance	₩	<u>(20,002,025)</u>

22. OTHER EQUITY:

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

	<u>December 31, 2012</u>	
Losses on valuation of AFS securities, net	₩	(38,289)
Cash flow hedging reserve		(229,798)
Gains on translation of foreign operations		<u>(53,544,688)</u>
Total	₩	<u>(53,812,775)</u>

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

	<u>2012</u>	
Beginning balance	₩	-
Losses on valuation of AFS securities, net		(36,522)
Tax effects on valuation of AFS securities, net		(1,489)
Changes in non-controlling interest		<u>278</u>
Ending balance	₩	<u>(38,289)</u>

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

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

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

	2012
Beginning balance	₩ -
Changes in current period	(52,643,140)
Tax effects on the other comprehensive income	(1,073,406)
Changes in non-controlling interest	(171,859)
Ending balance	₩ (53,544,687)

23. SALES AND COST OF SALES:

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

	2012
Sale of goods	₩ 2,315,674,903
Sale of finished goods	2,392,687,206
Sale discount	(34,684,867)
Export fees	(28,602,832)
Sales incentive	(13,724,604)
Rendering of services	1,548,501
Rental sales	773,756
Wage sales	212,459
Other sales	562,286
Total	₩ 2,317,223,404

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

	2012
Cost of finished goods sold	₩ 1,560,409,800
Custom duties reimbursed	(3,373,512)
Loss (reversal of) on valuation of inventories, net	4,736,879
Total	₩ 1,561,773,167

24. SELLING AND ADMINISTRATIVE EXPENSES:

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

	2012
Payroll	₩ 16,478,696
Provision for severance benefits	1,451,257
Travel and transportation expenses	56,875,678
Ship transportation expenses	51,772,850
Packing charges	3,861,617
Advertisement	84,746,847
Other export expenses	4,330,617
Foreign market development expenses	127,595
Sales damage expenses	10,550,351
Total	₩ 230,195,508

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

	<u>2012</u>
Payroll	₩ 40,920,098
Provision for severance benefits	1,051,354
Utility expenses	2,155,563
Depreciation	13,024,117
Repairs expenses	1,380,991
Supplies expenses	1,744,894
Taxes and dues	12,015,077
Rental expenses	8,015,139
Insurance	4,034,967
Employee benefits	11,242,429
Travel expenses	5,961,025
Communication expenses	1,707,993
Service expenses	12,361,674
Service fees	15,683,463
Entertainment expenses	2,139,508
Publication expenses	248,799
Training expenses	911,429
Vehicles maintenance expenses	1,545,195
Provision for doubtful accounts	(2,053,664)
Amortization of intangible assets	1,257,148
Warehouse charges	9,943,368
Brand loyalty expenses	14,294
Test expenses	2,073,015
Overseas branch maintenance expenses	2,085,413
SSC service fee	5,961,406
Engineering fee	13,376,092
Miscellaneous expenses	303,422
Total	<u>₩ 169,104,209</u>

25. FINANCIAL INCOME:

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

	<u>2012</u>
Interest income:	
Short-term financial assets	₩ 4,511,803
Trade and other accounts receivable	485,327
AFS financial assets	92
Subtotal	<u>4,997,222</u>
Gain on foreign currency translation	4,297,328
Gain on foreign currency transaction	4,472,562
Total	<u>₩ 13,767,112</u>

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

	<u>2012</u>
Loans and receivables	₩ 4,997,130
Financial assets AFS	92
Subtotal	₩ 4,997,222
Gain on foreign currency transaction from borrowings in foreign currency	3,197,784
Gain on foreign currency transaction from deposits in foreign currency	1,274,778
Gain on foreign currency translation from borrowings in foreign currency	3,685,262
Gain on foreign currency translation from deposits in foreign currency	612,066
Total	<u>₩ 13,767,112</u>

26. FINANCIAL EXPENSES:

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

	<u>2012</u>
Interest expense:	
Common borrowings	₩ 22,751,027
Bonds interest	2,057,744
Subtotal	24,808,771
Qualifying assets	<u>(405,250)</u>
Subtotal	24,403,521
Loss on disposal of AFS securities	3,902
Loss on foreign currency transaction from borrowings in foreign currency	1,011,198
Loss on foreign currency transaction from deposits in foreign currency	11,069,447
Loss on foreign currency translation from borrowings in foreign currency	6,710,086
Loss on foreign currency translation from deposits in foreign currency	4,555,450
Loss on foreign currency translation from short term loans in foreign currency	3,175,000
Total	<u>₩ 50,928,604</u>

27. OTHER NON-OPERATING INCOME:

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

	<u>2012</u>
Commission income	₩ 135,200
Dividend income	62,741
Royalty fee income	50,486
Rental income	655,647
Gains on foreign currency transaction	64,861,679
Gains on foreign currency translation	33,736,108
Gains on foreign exchange forward transaction	11,021
Gains on disposal of property, plant and equipment	614,706
Gains on insurance settlements	119,591
Other operating income	10,581,461
Total	<u>₩ 110,828,640</u>

28. OTHER NON-OPERATING EXPENSES:

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

	<u>2012</u>
Donation	₩ 1,672,392
Losses on disposal of property, plant and equipment	4,014,335
Losses on property abandoned	1,999,564
Other bad debt expenses	1,603,133
Losses on inventory abandoned	822,817
Losses on disposal of trade receivable	807,919
Losses on valuation of foreign exchange forward contracts	219,160
Losses on foreign currency transaction	51,089,637
Losses on foreign currency translation	24,968,379
Loss on restoration in other provisions	3,520
Amortization of investment property	82,200
Other operating expenses	<u>1,447,918</u>
Total	<u>₩ 88,730,974</u>

29. INCOME TAX EXPENSE:

(1) Income tax expense for the four months ended December 31, 2012, is as follows (Korean won in thousands):

	<u>2012</u>
Current income tax of the parent company	₩ 37,725,821
Changes in deferred income taxes	2,701,256
Changes in deferred income tax directly adjusted in equity	6,408,901
Income tax expense of the parent company	46,835,978
Income tax expense of consolidated subsidiaries and others	18,671,190
Tax effect for adjusting consolidation	<u>(2,992,887)</u>
Income tax expense	<u>₩ 62,514,281</u>

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

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

	<u>2012</u>
The Parent Company	
Beginning balance of accumulated temporary difference, net	₩ (90,086,640)
Changes in the current year, net	<u>11,162,214</u>
Ending balance of accumulated temporary difference, net	(101,248,854)
Exclusion from temporary difference due to uncertainty of realization	<u>(3,142,654)</u>
Subtotal	(104,391,509)
Statutory tax rate	<u>24.20%</u>
Deferred income tax assets of the Parent Company	(25,262,745)
Deferred income tax assets of consolidated subsidiaries and others	8,428,032
Deferred income tax assets of adjusting consolidation	<u>104,553,363</u>
Ending balance of deferred income tax assets in consolidation	<u>₩ 87,718,650</u>

(3) Details of deferred tax assets deducted from accumulated other comprehensive income (loss) as of December 31, 2012 are as follows (Korean won in thousands):

	Before tax	Income tax effect	Non-controlling interest	After tax
Gain (Loss) on valuation of AFS financial assets	₩ (36,522)	₩ (1,489)	₩ 278	₩ (38,289)
Actuarial Gain (Loss)	(26,536,452)	6,413,977	(120,451)	(20,002,024)
Gains (Losses) on valuation of foreign exchange forward contracts	(303,164)	73,366	-	(229,798)
Exchange differences on translating foreign operations	(52,643,140)	(1,073,406)	(171,859)	(53,544,687)
Total	₩ (79,519,278)	₩ 5,412,448	₩ (292,032)	₩ (73,814,798)

30. EXPENSE CLASSIFICATION BY NATURE:

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

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

31. EARNINGS PER SHARE:

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

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

(*1) As the Group has no potential ordinary shares issued, the basic and diluted earnings per share are the same as of December 31, 2012.

(*2) Weighted-average number of common shares outstanding is the product of outstanding ordinary shares minus treasury stock and outstanding periods.

32. SEGMENT INFORMATION:

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

Geographical segment	2012	
	Amounts	Ratio(%)
North America	₩ 459,915,789	19.8
South and Central America	87,065,386	3.8
Asia, except Korea	668,450,587	28.9
Europe	544,318,115	23.5
Domestic	557,473,527	24.0
Total	₩ 2,317,223,404	100.0

33. RELATED-PARTY TRANSACTIONS:

(1) Details of related parties as of December 31, 2012, are as follows:

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

(*) Atlas BX Co., Ltd., EmFrontier Inc., Shin-Yang Tourist Development, Shin-Yang World Leisure, FWS Investment Advisory, Another WTE Co., Ltd., H-2 WTE Co., Ltd., Another Geumsan Co., Ltd., and Hankook Tire Worldwide 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 four months ended December 31, 2012 are as follows (Korean won in thousands):

	2012
Sales transaction and others	₩ 291,483
Purchase transaction and others	92,661,092

- 2) Outstanding balances of receivables and payables as of December 31, 12 are as follows (Korean won in thousands):

	<u>December 31, 2012</u>	
Accounts receivable and others	₩	57,298
Accounts payable and others		72,688,978

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

	<u>2012</u>	
Short-term benefits	₩	1,213,717
Severance and retirement benefits		335,888
	₩	<u>1,549,605</u>

34. 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, 2012, cash and cash equivalents of the consolidated financial statements is calculated as follows (Korean won in thousands):

	<u>2012</u>	
Cash and bank deposit	₩	485,612,512
Overdraft		-
Cash and cash equivalents	₩	<u>485,612,512</u>

35. 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 ratio at end of the reporting period is as follows (Korean won in thousands):

	<u>December 31, 2012</u>	
Total liabilities	₩	3,960,968,823
Total shareholders' equity		3,221,485,621
Debt ratio		<u>122.95%</u>

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

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

Financial assets	Account	December 31, 2012	
		Book value	Fair value
Financial assets AFS	AFS financial assets	₩ 2,776,458	₩ 2,776,458
Loans and receivables	Cash and cash equivalents	485,612,512	485,612,512
	Short-term financial assets	194,283,138	194,283,138
	Trade receivables	1,052,183,209	1,052,183,209
	Accounts receivable	118,138,014	118,138,014
	Accrued income	14,084,153	14,084,153
	Short-term loans	474,467	474,467
	Deposits provided (current)	1,244,423	1,244,423
	Deposits provided	9,751,420	9,751,420
	Long-term financial assets	94,550	94,550
	Long-term loans	4,465,433	4,465,433
	Total		₩ 1,883,107,777

Financial liabilities	Account	December 31, 2012	
		Book value	Fair value
Derivative financial liabilities	Other financial liabilities	₩ 303,164	₩ 303,164
Financial liabilities at amortized cost	Trade payables	389,674,803	389,674,803
	Accounts payable	469,189,933	469,189,933
	Accrued expenses	80,751,635	80,751,635
	Short-term borrowings	1,858,478,772	1,858,478,772
	Current portion of long-term borrowings	74,813,908	74,813,908
	Long-term borrowings	734,455,576	734,455,576
	Debentures	149,481,404	149,481,404
	Rental deposits	3,851,763	3,851,763
Total		₩ 3,761,000,958	₩ 3,761,000,958

(4) Financial risk management

1) Purpose of financial risk management

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

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

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

2) Market risk

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

a) Foreign currency risk management

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

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

	Assets		Liabilities	
AUD	₩	25,983	₩	81
CAD		22,552		20,302
EUR		108,395		72,855
GBP		11,495		10,170
JPY		2,401,655		2,281,415
MXN		335,331		-
NOK		28,243		-
NZD		2,806		7
PLN		8,483		-
RUB		775,447		-
SEK		67,331		774
USD		556,148		672,878

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

	Profit or loss		Equity	
AUD	₩	2,590	₩	2,590
CAD		225		225
EUR		3,554		3,554
GBP		133		133
JPY		12,024		12,024
MXN		33,533		33,533
NOK		2,824		2,824
NZD		280		280
PLN		848		848
RUB		77,545		77,545
SEK		6,656		6,656
USD		(11,673)		(11,673)

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

The following table details the forward foreign currency contracts outstanding as of December 31, 2012 (Korean won, Euro and U.S. dollar in thousands):

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

b) Interest rate risk

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

The book value of liability exposed to interest rate risk as of December 31, 2012 is as follows (Korean won in thousands):

	December 31, 2012	
Borrowings (floating rate)	₩	1,523,840,207

① Interest rate sensitivity analysis

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, 2012	₩ (7,619,201)	₩ (7,619,201)	₩ 7,619,201	₩ 7,619,201

For the four months ended December 31, 2012, the Group's interest rate sensitivity increased because of increase in floating rate borrowings. The degree of exposure to interest rate risk of financial assets (liabilities) is explained further in 4) Liquidity risk management.

c) Other price risks

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

3) Credit risk management

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

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

4) Liquidity risk management

The Group has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The board of directors has a full responsibility of the liquidity risk management. The Group manages liquidity risk by maintaining adequate reserves and credit facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities. For lessening liquidity risk, the details of unused balances of credit facilities agreements are explained in item b).

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.

The amount of financial guarantee contracts is the largest sum, which the creditor banks can claim to the Group on all the subsidiaries' default as of December 31, 2012. It is estimated that any payment caused by default is less probable than it would be otherwise at the end of the reporting period. However, potential credit loss of financial receivables in future can alter the default rate, which may result in the different estimation.

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

	December 31, 2012			
	Within a year	1-5 years	After 5 years	Total
<u>Interest free:</u>				
Trade payables	₩ 389,674,803	₩ -	₩ -	₩ 389,674,803
Accounts payable	469,189,933	-	-	469,189,933
Accrued expenses	80,751,635	-	-	80,751,635
Rental deposits	3,851,763	-	-	3,851,763
<u>Floating rate financial instrument:</u>				
Short-term borrowings	930,290,591	-	-	930,290,591
<u>Fixed rate financial instrument:</u>				
Short-term borrowings	928,188,181	-	-	928,188,181
Long-term borrowings	74,813,908	733,655,576	800,000	809,269,484
Debentures	-	150,000,000	-	150,000,000
Total	₩ 2,876,760,814	₩ 883,655,576	₩ 800,000	₩ 3,761,216,390

The second 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 analysis of non-derivative financial assets according to their remaining maturity as of December 31, 2012, is as follows (Korean won in thousands):

	December 31, 2012			
	Within a year	1-5 years	After 5 years	Total
<u>Interest free:</u>				
Trade receivables	₩ 1,052,183,210	₩ -	₩ -	₩ 1,052,183,210
Accounts receivable	118,138,014	-	-	118,138,014
Accrued income	14,084,153	-	-	14,084,153
Leasehold deposits provided	-	9,751,420	-	9,751,420
Deposits of acceptances and guarantees	1,244,422	-	-	1,244,422
Long-term financial instruments	-	-	94,550	94,550
<u>Fixed rate financial instrument:</u>				
Cash and cash equivalents	485,612,512	-	-	485,612,512
Short-term financial assets	194,283,138	-	-	194,283,138
Short-term loans	474,467	-	-	474,467
Long-term loans	-	4,465,433	-	4,465,433
Total	₩ 1,866,019,916	₩ 14,216,853	₩ 94,550	₩ 1,880,331,319

(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 valued by discounted cash flow method using the yield curve available. Options are valued 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 flow 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, 2012 are as follows (Korean won in thousands):

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

(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, 2012 are categorized as follows (Korean won in thousands).

<u>Book value</u>	<u>Trade receivables discounted and transferred(*1)</u>
Assets	₩ 476,901,801
Associated liabilities	₩ 476,901,801

(*1) In the 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.

36. COMMITMENTS AND CONTINGENCIES:

(1) Pledged assets as collateral

As of December 31, 2012, 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):

<u>Creditor</u>	<u>Pledged assets</u>	<u>Pledged amounts</u>
The Korea Development Bank and others	Land, buildings, machinery and equipment	KRW 301,401,651
		USD 153,200
		CNY 624,270

(2) Details of insurance products

As of December 31, 2012, details of insurance provided to the Group are as follows (Korean won in thousands):

<u>Product</u>	<u>Property insured</u>	<u>Sum insured</u>	<u>Beneficiary</u>
Property All Risks	Buildings	₩ 5,971,825,847	The Group
Property All Risks	Inventories	3,471,658,397	The Group
Property All Risks	Machinery and equipment	3,964,068,287	The Group
Movable All Risks	Other investments	98,968,709	The Group
<u>Total</u>		<u>₩ 13,506,521,240</u>	

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: ₩143,145,000 thousand and USD 43,200 thousand). In addition, vehicles are insured against a general and liability insurance policy.

(3) Outstanding credit facilities agreement

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

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

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

(*2) As of December 31, 2012, the Group is provided guarantees (Credit line: USD 130,000 thousand) by Korea Trade Insurance Corporation with regard to agreements so as to discount trade receivable in foreign currencies, which was entered into with Deutsche Bank (USD 50,000 thousand), ING (USD 30,000 thousand) and RBS (EUR 35,000 thousand).

(4) Purchase agreement

As of December 31, 2012, 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, 2012, the Group has a long-term contract with EmFrontier Inc., one of its affiliated companies, to be provided with maintenance service for the Group's information system.

(5) Pending litigations

The Group is named as a defendant in various legal actions arising from normal business matters, including product liability. As of December 31, 2012, the outcome of these matters is uncertain. The estimated loss of ₩6,962,150 thousand (USD 6,500 thousand) expected with respect to the litigations is provided as product liability allowance.

As of December 31, 2012, the Group was involved as a defendant in the ₩485,890 thousand lawsuit filed at Seoul Central District Court with compensation for employee's invention by the formal researcher. As the court decided partially in favor of the plaintiff on June 5, 2012, the sum of principal and accrued interest of ₩228,394 thousand is provided as other provisions. Both the Group and plaintiff lodged an appeal against the verdict. Another lawsuit about compensation for employee's invention amounting to ₩180,000 thousand is outstanding at Seoul Central District Court.

In addition, the Group has been charged with two cases, which amount to ₩48,722 thousand, and has filed five lawsuits, which amount to ₩752,829 thousand. As of December 31, 2012, the results of these matters are unpredictable.

37. Incorporation by spin-off:

The Group was spun off from Hankook Tire Worldwide Co., Ltd. (the former Hankook Tire Co., Ltd.) to be incorporated as of December 31, 2012.

(1) General information of spin-off

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

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

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

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

(3) Accounting method of spin-off

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

(4) Succession of Rights and obligations

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

(5) Liabilities of companies derived from spin-off

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

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

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

(7) Application of accounting policies

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