

HANKOOK TIRE

HANKOOK TIRES will stay abreast of change amid ever-increasing global competition, while working to forge even closer relationships with customers and shareholders.



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PROFILE





Hankook Tires on the World's Leading Cars

Sound management twinned with advanced technology has given Hankook Tire an envied reputation among Korean companies as a truly world-class manufacturer. Our corporate philosophy is "safety and satisfaction" and Hankook Tire has long maintained a competitive edge by working to meet the challenges of an ever-changing business environment through efficient production methods and aggressive market development strategies. Today, the company is preparing to transform itself from "Korea's leading tire producer" to "the brand of tire found on the world's leading cars". Rather than cling to past successes, Hankook Tire is striving to reinvent itself as a market-driven company, able to adapt quickly and competitively to changes in the industry. This transformation entails shedding an outdated management-centered mindset and becoming a company with a keen eye on the marketplace and total dedication to its customers. By developing superior risk management capabilities able to cope with rapid changes in business conditions, the company will present customers and shareholders with a new Hankook Tire, ready and waiting for future challenges.

Hankook Tire's business results in 2002 were satisfactory, given the long-term stagnation in the U.S. economy and the precipitous decline of the dollar against the Korean Won. After penetrating the foreign new car market in a supply agreement with Ford Motor of the U.S. in 1999, Hankook Tire has continued to expand as supplier to many of the world's leading automobile makers, including Volvo, Mitsubishi and Daihatsu. Meanwhile, the company's subsidiary in China is showing tremendous results, with the largest share of the country's market for passenger car tires. In another major step forward, Hankook Tire concluded a strategic partnership with Michelin of France in January 2003, a key development that demonstrates the growing international recognition of Hankook Tire's technological prowess, while enhancing its brand value and stature as a world-class tire maker.

As a market leader, Hankook Tire will continue to strengthen the brand value it has cultivated, and respond flexibly to sudden market changes and demand trends through technological development and cost reduction. As it continues to expand its presence in the fast-growing Chinese market, Hankook Tire will strive to earn a reputation for outstanding product quality not only in the passenger car tire market, but in the commercial vehicle tire market as well. Through continuous technology development, brand-building centered on product superiority, and long-term marketing, Hankook Tire will demonstrate its growing global competitiveness as "the brand of tire found on the world's leading cars."



FINANCIAL HIGHLIGHTS

(in billions of Korean Won)

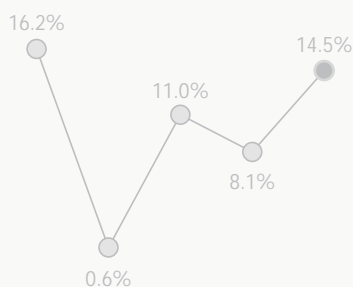
	1998	1999	2000	2001	2002
Total Sales	1,346	1,353	1,502	1,624	1,859
Sales for Korean Operations	1,346	1,277	1,313	1,405	1,579
Sales for Chinese Subsidiaries	–	76	189	219	280
Hankook Tire (Korean Operations)					
Sales	1,346	1,277	1,313	1,405	1,579
Operating Income	123	127	106	119	103
Ordinary Income	33	60	34	41	74
Net Income	20	41	23	30	70
Total Assets	1,775	1,895	1,948	1,916	1,857
Total Liabilities	1,099	1,105	1,026	965	867
Total Shareholders' Equity	676	790	922	951	990
Earnings Per Share (in Won)	303	284	157	210	476
* Book-Value Per Share (in Won)	10,126	5,455	6,182	6,248	6,578
* Cash-Flow Per Share (in Won)	2,471	984	1,220	1,390	1,912
Debt-to-Equity Ratio	162.6%	140.0%	111.3%	101.4%	87.6%
Return On Equity	3.0%	5.2%	2.5%	3.2%	7.0%

* The financial statements of 2001 restated due to an error. (See 'Independent Auditor's Report')

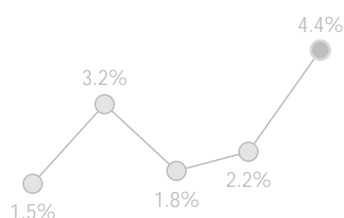
* A ten-to-one split on Aug. 1, 1998

* 96.4% capital increase without consideration on May 24, 1999

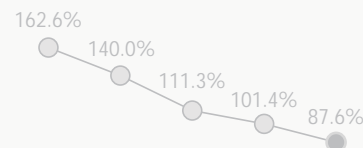
Growth in Sales



Net Profit Margin

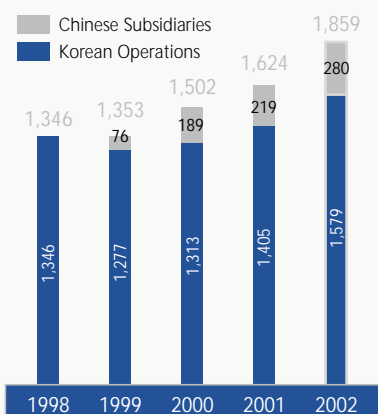


Debt-to-Equity Ratio



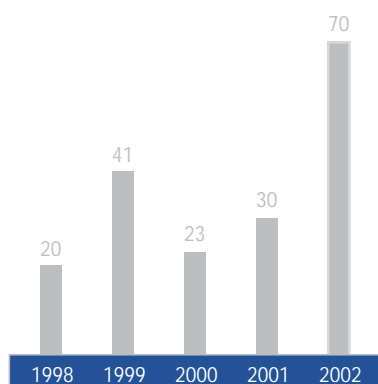
Total Sales

(in billions of Korean Won)

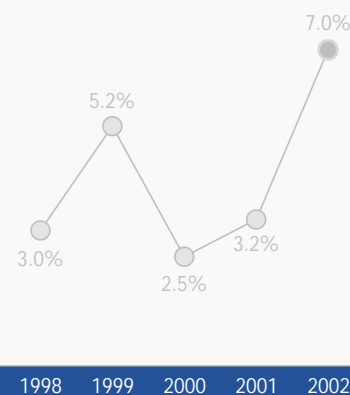


Net Income

(in billions of Korean Won)



Return On Equity



INTERVIEW WITH THE PRESIDENT >>

To Our Customers, Shareholders and Partners

Given the adverse external conditions under which it was achieved, the company's business performance in 2002 was extremely satisfactory. Total sales and ordinary income rose 12% and 81% respectively over 2001, to record 1.5785 trillion won and 74.2 billion won. Net income likewise grew 129% to 69.5 billion won.

These results were possible thanks to increased sales of high-value-added products which enabled the simultaneous pursuit of both growth and profits, the introduction and operation of our Enterprise Resource Planning (ERP) system which is now in place, and had a positive knock-on effect on our subsidiary in China.

For Hankook Tire's management and workforce, 2003 will be a year of new challenges. First, on January 28th of this year, we concluded a basic agreement with the Michelin Group, the world's leading tire maker, to form a strategic alliance. This decision is central to achieving our long-term strategy of profitable growth, which was launched under the motto "Trust and Value to the World" on the 60th anniversary of the establishment of Hankook Tire. It will also form a sound foundation on which Hankook Tire can build to become a premier global tire maker. Second, by reinforcing our market-forecasting capabilities and introducing market-driven management, we will further highlight our strengthened position in the world market. We will concentrate all of our energies on analyzing customer needs, thereby enhancing our ability to respond more accurately with product development and strategic marketing efforts that ensure customer satisfaction.

But while Hankook Tire shifts its strategic attention to the marketplace, we will not lose sight of the need for continued and resolute management reform. As such, we place renewed emphasis on increasing corporate value and, in turn, will spare no effort in realizing our ultimate goal of maximizing shareholder value.

At this time, I hope for the continued support of our customers and shareholders for the year ahead, and look forward to greeting you again in 2004 with more good news to report.



"In 2003, Hankook Tire will further strengthen its position by creating a 'market-driven management' system."

<< CEO Cho Choong Hwan

INTERVIEW WITH THE PRESIDENT



Q : What are your views on the current market trends and the future outlook for the tire industry?

A : With global production capacity already exceeding demand, the tire industry has entered an era of maturity in which tire makers are engaged in fierce competition for survival. Raw material prices are rising and Top Tier brands are continuing to make offensive moves here in the domestic market. Forecasts predict that tire demand in the American market, the world's largest, will be 309 million units. That's a rise of only 0.9% over last year, and remains considerably less than the 320 million units recorded in 2000. The global tire market is also expected to see a gradual recovery, but a significant increase in demand is unlikely. However, the Chinese market, presently the engine of world economic growth, is the exception. It is anticipated that the dawn of the "motoring age" in China will generate a exponential increase in tire demand. As a result, the tire industry is expected to enjoy around 9% average annual growth in China until 2005.

Q : Tell us about the key business achievements of 2002 and the targets for 2003.

A : Despite long-term stagnation in the U.S. economy and the deterioration in conditions in Korea, total sales rose 12% in 2002 over the previous year, reaching 1.58 trillion won. This was the result of company-wide management innovation and increased sales of high-value-added products, as well as growing overseas recognition of our product quality. In particular, the perception of distribution channels in Europe and America - our two main overseas markets - that Hankook Tire's product quality has already reached world standards is contributing to rising order volumes in those key markets. Although the price of natural rubber, which represents 18% of total material costs, has risen more than 70% since the beginning of 2002, the company succeeded in achieving relatively strong sales growth thanks to the positive effect of steady management restructuring and greater efficiencies from the introduction of ERP (Enterprise Resource Planning) systems. The steady repayment of over 180 billion won in debt, lowering interest expenses by 32% from last year, and gains due to foreign currency depreciation also contributed to an 81% year-on-year increase in ordinary income to 74.2 billion won. This year, our tire sales target is 1.5 trillion won, an increase of more than 22.5 billion won over last year, with net income pegged at 54.5 billion won. Total sales are expected to decrease by 2.7% as the housing sales are likely to decline by more than 60 billion won on the previous year, signaling the end of that ancillary business this year. However, in line with marketing strategies aimed at boosting the profile of high-value-added items in the company's overall product mix, tire sales will continue to expand as Hankook Tire's core business. As a result, ordinary income is expected to grow by at least 7% in 2003 over the previous year, excluding 18.5 billion won in extraordinary gains in 2002.

Q : Tell us more about the strategic alliance with Michelin and its expected effects.

A : For the past 62 years, the continuous growth and steady development of Hankook Tires has mirrored the miraculous advance of the Korean economy itself. The hard work and passion of all our employees have brought the company to its current position as a world-class enterprise. Through working-level discussions that began a year ago on a strategic alliance with the Michelin Group, we decided to create a solid partnership that ensures each company a "Win-Win" outcome on the world market. In terms of the positive effects of this strategic partnership, Hankook Tire will gain new confidence and trust thanks to the unrivaled product quality and advanced technology of the Michelin Group, the world's top tire maker. That, along with our successful entry and lead in the Chinese passenger car tire market, will ensure Hankook Tire a much higher profile in the global tire industry. The benefits of sharing of the two companies' core technologies, distribution networks, and production facilities will be boost corporate value for shareholders, employees and customers alike.

Q : What specific changes does marketing innovation entail for Hankook Tire?

A : In order for us to survive amid ever-increasing competition in the global marketplace, it is imperative that we institute a system of "market-driven management" based on customers' needs. As Hankook Tire implements its strategy of "profitable growth", the attention and energies of the entire company must be concentrated on providing the best value to our customers and end consumers. In this context, we will make every effort to strengthen core technologies to satisfy customers' needs, optimize our product mix around high-value-added tires, enhance profitability by concentrating on key markets, and improve our brand image through effective communication with customers (i.e., consumers and distribution channels). The most important task this year is for Hankook Tire to transform its business from an old-style manufacturing company to a market-driven service enterprise.

Q : What is Hankook Tire's mid- to long-term business strategy?

A : Hankook Tire's mid- to long-term strategy relies on a precise understanding of market trends in order to concentrate all sales and marketing activities on key markets and products, thereby maximizing corporate value. In the domestic market, where we are the leading tire maker, we will strengthen our position in the face of competition from major foreign and local brands by raising product quality, enhancing PR and customer relations, and reinforcing distribution networks.

Hankook Tire succeeded in carving out an early lead in China, where we established our manufacturing subsidiary in 1999 in anticipation of rapid growth, and where we are currently ranked no.1 in the passenger car tire market. Our energies are now directed at bolstering our market-leading position in the passenger car sector, securing a bridgehead for commercial vehicle tire sales, and creating a foundation for long-term growth. To ensure both profits and growth, we will focus on elevating our brand value by concentrating on high-profit, high-growth product trends. In this respect, Hankook Tire will expand the production of UHPT, which is expected to lead market trends, and will strive to gain a dominant position in high-value-added products in the future. These steps will enable Hankook Tire to broaden its market profile and upgrade its corporate image.



Q : How does Hankook Tire ensure efficient management and promote a harmonious corporate culture?

A : In order to ensure that our business practices meet the highest international standards, Hankook Tire has operated an ERP system since August 2001. By enabling work tasks to be performed faster and more accurately, the ERP system creates a knowledge-based management infrastructure that reduces business inefficiencies and provides greater value to customers and shareholders. The ERP system represents a profound change in the way Hankook Tire runs its business. Through the systematic establishment and implementation of a Corporate Performance Monitoring (CPM) system, Hankook Tire will compensate all employees on the basis of their performance, thereby creating a corporate culture conducive to individual productivity. This will improve employee satisfaction and ultimately lead to a higher level of organizational cohesiveness, which in turn will generate a continuous cycle of greater profit creation.

Cho, Choong-Hwan
Chief Executive Officer
March 2003



Innovation

Market-Driven Company

A "market-driven" company is one that understands precisely how the demands of end-users' change and, after a thorough analysis of the relevant market and product, devises and executes an appropriate strategy on the basis of that analysis.



A company that prepares for the future must have superior market-analysis capabilities. On the base of those capabilities, it can discern consumers' sensibilities and provide products and services before the consumers themselves demand them. This is the very core of market-driven management, which enables a company to lead a market and increase customer value.

Having put into place the personnel and material resources necessary to attain this market-forecasting capability, Hankook Tire has created a basis upon which to carry out its mid- and long-term core strategies, including "defending the domestic market", "pursuing the UHPT market" and "expanding the Chinese market". Specifically, a market-driven organizational structure has been established to execute effective marketing strategies; R&D activities are focused on the company's key product lines; and a "change management" system was set up to ensure the most efficient use of the company's human resources.

Under a general marketing strategy that places the central emphasis on the Marketing Division, all of the company's goals can be achieved through an effective system of internal communication, transforming Hankook Tire into a truly market-driven company.

"Qualitative growth" is the main objective of Hankook Tire's market-driven management plan. Having experienced difficulties and crises during its long history, Hankook Tire has triumphed over them all with the wisdom and tenacity born of experience, and is now a major player on the world tire market. The time has come for Hankook Tire to earn global recognition for its product quality and technological prowess. "Qualitative Growth through Customer Satisfaction" - a new paradigm for a new tire industry. An industry Hankook Tire is ready to lead.

For six decades, Hankook Tire's rapid growth and solid profitability has drawn keen attention. In 2003, the world will witness the transformation of Hankook Tire from a manufacturing-oriented company to a market-driven enterprise. With its core competencies focused on expanding sales of high-value-added products and aggressively penetrating key markets, Hankook Tire will launch bold new marketing activities aimed at increasing both sales and profits. "Qualitative Growth through Customer Satisfaction" - a new paradigm for a new tire industry. An industry Hankook Tire is ready to lead.

New Product Development

>> R&D Achievements in 2002 (Total of 14 patterns in 416 sizes)

- Ultra High Performance (UHP) tires
 - 1 pattern in 50 sizes
- Passenger Car Radial (PCR) tires
 - 3 patterns in 219 sizes
- Light Truck Radial (LTR) tires
 - 6 patterns in 77 sizes
- Truck/Bus Bias Radial (TBR) tires
 - 4 patterns in 70 sizes

>> Product Development Plans for 2003

- UHPT
 - Develop tires for "comfort cars" and sports cars for the European market
 - Develop "all-season" and SUV tires for the North American market
- TBR
 - Reinforce product quality in Korea (tires for express buses, light trucks, dump trucks, etc.)
 - Develop commercial vehicle-use (TBR) tires for Chinese market
 - Develop "low-profile" tires for European market

International Recognition of Technological Prowess

>> Achievements in 2002

- Overseas OE Focus
 - PCR: Europe (Volkswagen's PQ24 platform, Renault), Japan (Daihatsu's Mira MMO)
 - LTR: North American (Ford Motor)
- Overseas OE Lightweight Advance
 - 15% lighter than standard tires
- Overseas Magazine Tests
 - Favorable scores from Germany's ADAC and other foreign publications
- Positive Response from Racing World
 - Positive reaction from overseas & domestic motor sport events

>> Plans for 2003

- Targets for Overseas OE Advance
 - Europe: Volkswagen and Renault
 - America: GM and Ford
 - China: FAW Volkswagen, Shanghai Volkswagen and others
 - Japan: Toyota, Daihatsu and Mitsubishi
- Overseas Magazine Tests
 - ADAC (13 million copies/month)
 - Autobild (6 million copies/month)
 - Auto Motor Sport (1.6 million copies/month)
 - Gute Fahrt (130,000 copies/month)
- Racing Use
 - Develop tires for U.S. SCCA and 24-hour racing

New Technology Development

- Design Technology
 - R&D on basic technology for UHP tires
 - Develop lightweight design technology
 - Evaluate field application of high-thin bead technology
 - Field application of ventless mold technology
- Material Processing & Production Technology
 - Research properties & processes of silica compound
 - Reduce vulcanization time
 - Field application of Gipless for LTR & UHP tires at Geumsan Plant
 - Develop textile carcass butt-joint system

R&D

(In billion of Korean Won, %)

Category	1998	1999	2000	2001	2002	2003(E)
Investment	45.0	59.2	50.9	43.6	44.4	53.7
Percentage of Sales	3.3	4.6	3.9	3.1	2.8	3.5

Restructuring to Strengthen Marketing

Hankook Tire's Marketing Support Division has been expanded and reorganized into the new Marketing Division. This move creates a market-focused organizational structure for more effective planning and execution of marketing strategies. The newly created Marketing Strategy Team will reinforce the implementation of the "4P" strategy, bolstering Hankook Tire's market research and market forecasting capabilities. Merging with the Supply Chain Planning (SCP) Team will allow for the operation of a strategic logistics system, while the creation of a section devoted exclusively to planning the development of new products will facilitate a more market-focused approach to the task of new product development. Also, with the integration of the Quality Management Team, product quality management activities will henceforth be carried out from a marketing perspective. This organizational integration of marketing activities will improve customer satisfaction, while also enabling the coordinated integration of "profitable growth" strategies and sales targets of individual business sections. By formulating and executing an effective marketing strategy, Hankook Tire will consolidate its leading position in the domestic market, while advancing as a major company in overseas markets.

Marketing Division to Lead Change

>> Management Profiles

Suh, Seung-Hwa (Exec. Vice President)

Marketing Division Director

- Prior Positions: Export Director for Hankook Tire's European & Middle East subsidiaries; President of Hankook Tire America Corp.; Director of Hankook Tire's Overseas Business Div. & Vice President of Marketing Support Div.
- Present Position: Marketing Division Director / Executive Vice President

Ki, Keun-Hyup

Marketing Strategy Team Chief

- Prior Positions: Product Manager at Orion Frito-Lay Corp.; Nationwide Marketing Manager at McDonald's Korea; Group Accountant Director at AC Nielsen Korea (Received AC Nielsen ART Award for developing fact-based analysis model); Research Manager at Nhong Shim Kellogg Co.
- Present Position: Marketing Strategy Team Chief

Kim, Jong-Shik

Quality Management Team Chief

- Prior Positions: (all at Hankook Tire) Quality Assurance Dept., responsible for product quality information & service in N. American region; Customer Satisfaction Team, responsible for product claims; Quality Management Team, overseas service planning
- Present Position: Quality Management Team Chief

Noh, Tae-Jin

Design Team Chief

- Prior Positions: Design Group Chief at Research Center, responsible for overall design development of "Optimo Gold" and other passenger car products; Head Office PR & Design Team (won "President's Design Management Award" supervised by Industry Division of Ministry of Commerce, Industry and Energy); Team Chief of Marketing Support Division (won Germany's "reddot Design Award", member of Federation of Korean Industries' Special Committee on Industrial Design)
- Present Position: Design Team Chief

Moon, Jeong-Su

Advertising & PR Team Chief

- Prior Positions: In charge of advertising, public relations and event strategy planning & execution; responsible for overall advertising and PR planning & management of Advertising & PR Team; IAA II (acquired International Advertising Association certification in 1996)
- Present Position: Advertising & PR Team Chief

Woo, Byeong-II

Product Planning Team Chief

- Prior Positions: In charge of development of Korea's first racing and electric passenger car tires, and domestic & overseas OE certification at Research Center; in charge of integrated advertising & product operations at European Headquarters; Marketing Team Chief at Head Office
- Present Position: Product Planning Team Chief

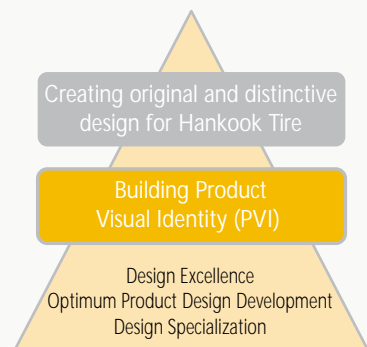
Choi, Dong-Kyu

Supply Chain Planning (SCP) Team Chief

- Prior Positions: In charge of improving distribution system and implementing materials cost management at Logistics Division; Management Innovation Team Chief, in charge of finalizing BPR program for management reform; Logistics Division SCP Team Chief, in charge of inventory reduction & supply improvement through implementation of ERP
- Present Position: SCP Team Chief

Creating Design Originality

As the cornerstone of its design management vision of "Creating Design Originality," Hankook Tire has established a unique Product Visual Identity (PVI) for each product category (e.g., UHPT, RV, Winter), allowing Hankook Tire's dynamic and progressive image to be conveyed by the products themselves.



Industry Awards

>> UHP K104 exhibit earns "GD" citation at 2002 Good Design Awards

- Judging Organizations: Korea Institute of Design Promotion:
Ministry of Commerce, Industry and Energy

>> "Developing Design Trend" citation from the Special Committee on Industrial Design, FKI (Federation of Korean Industries)

- Awarded in recognition of industrial designers who combine colors & materials to create new design trends
- Participants: Hyundai Motor, Samsung Electronics, LG Electronics, Hankook Tire, Aekyung, Amore-Pacific, Morning Glory, Enex
- Date & Venue: December 4, 2002; Korea Design Center



VENTUS SPORT K104

Public Design Contest

>> 2002 Hankook Tire Design Contest

Theme: "Deungkurami (Circle), Safety & The Future"

- Organized by Hankook Tire's Product Design Team as a specialized public design contest
- Participants: 536 contestants from 47 universities

Grand Prize: "Cross the Rain"
Winner: Jaehoon Jang (Samchok National University)

Gold Prize: "Soft, Strong & Safe"
Winners: Ukmo Kang & Jinah Joo (Daegu University)

Gold Prize: "Organic Express"
Winner: Jeonghaeng Hwang (Kyungsoo University)



An integral component of any high-value-added industry in the 21st century, design can also determine the performance of tires. Without doubt, good design is a key asset of any company in shaping and growing corporate value. That is why Hankook Tire will continue to spare no effort in cultivating design as a core feature of its corporate image enhancement and global marketing strategies. Through the Hankook Tire Public Design Contest, the company is able to foster the creativity of young designers, while also contributing to the development of the domestic tire industry.

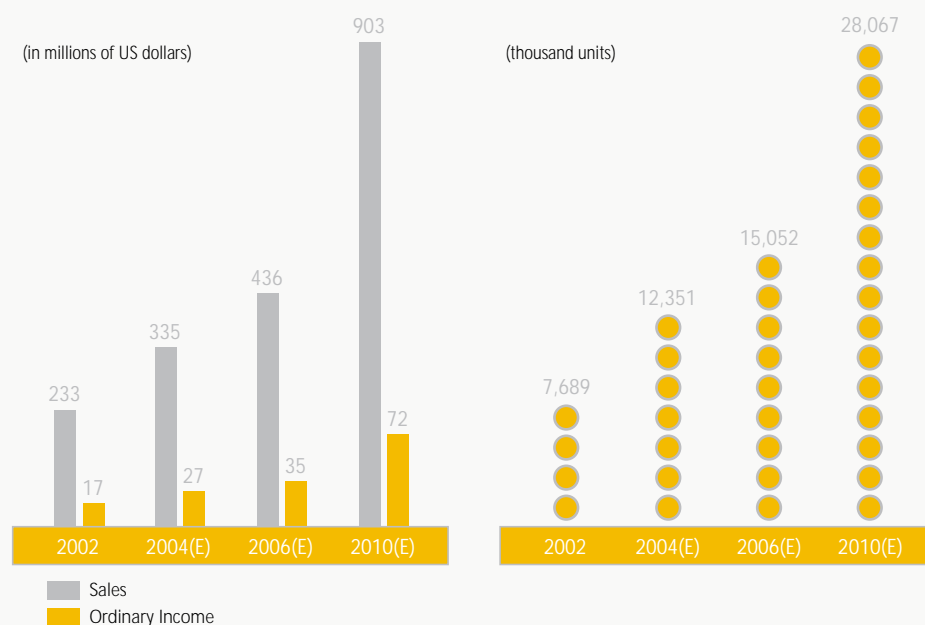
Growth in the Chinese market in 2002 was very encouraging. With one out of every four passenger cars equipped with Hankook Tire OE products, the company holds the top position in China's passenger car tire market. Moreover, Hankook Tire's supply arrangements with Shanghai Volkswagen and all other leading passenger car manufacturers, as well as the growing replacement market represent major potential for significant advances.

The rapid stabilization of operations at Hankook Tire's factories in Jiangsu and Jiaxing has resulted in high productivity, generating one sixth of the sales and a quarter of the company's ordinary income. There were other favorable developments in 2002: the Jiangsu and Jiaxing plants acquired subsidiary unification standard; expansion of TBR and LTR lines at the Jiangsu plant progressed smoothly; and expansion of the Jiaxing plant was completed ahead of schedule.

The company plans to steadily increase OE sales volume in China this year, aiming for ordinary income of around 25 billion won - 30% up on 2002. A research center will be established and sales offices will be expanded in an effort to strengthen sales networks and implement Hankook Tire's market-driven strategy in conjunction with the head office.

The company will complete the establishment of an ERP system at its China subsidiaries, while increasing daily output at the Jiaxing factory to 25,000 units as soon as possible to expedite the launch of TBR production. Viewing China as the company's "Second Home Market," Hankook Tire's top management and employees stationed in China will continue to do their best to achieve full-scale growth in the Chinese market.

>> Mid- & Long-Term Capacity Expansion Plan



In 2002, Hankook Tire had the largest share of China's passenger car tire market and was ranked seventh in terms of the country's overall tire market, with a 6.3% market share. Hankook Tire envisions ongoing expansion of production facilities in China through 2010, while targeting the top position in the overall tire market by 2005 with an estimated 8.8% share. Currently, Corporate Income Tax in China is 33%, comprising 30% in Central Government Corporate Tax and 3% in Local Government Tax. However, because no corporate tax is imposed for five years after profits are generated, revenues can be reinvested without a heavy tax burden. Likewise, tire sales are also expected to keep pace with the growth of the Chinese automobile industry.

China is predicted to emerge as one of the world's largest automobile markets, with sales of 3.7 million vehicles (including 1.2 million passenger cars) projected for 2006. This projection can be compared with 2.3 million vehicles sold in China last year and 2.6 million expected this year. As the tire market will expand in tandem with these projections for the automobile market, Hankook Tire's continued growth in China is virtually guaranteed.

>> Korea Storage Battery, Ltd. (KSB) (Acquired November 1977)

KSB, founded in 1944, is a specialist battery manufacturer, leading the domestic market in automobile, marine and industrial-use batteries. The company has enjoyed steady growth year after year, constructing a new plant in Jeonju, Korea, in a bid to become one of the world's top 10 battery makers. Hankook Tire acquired KSB in 1977, enabling the battery maker to vastly increase its sales network by integrating batteries and tires within a single distribution framework. The establishment of an R&D center in the early 1990s increased product competitiveness and earned KSB its reputation as an advanced, world-class battery maker. With the public listing of the company's stock on the KOSDAQ in 1994, KSB has secured a direct and steady source of financing. KSB acquired QS-9000, ISO-9001 and ISO-14001 quality certification in the second half of the 1990s, strengthening its claim as Korea's foremost manufacturer of batteries. At its Jeonju factory, which currently produces 2 million automobile batteries per year, ongoing facilities investment is expected to raise annual production capacity to 6.5 million units per year. This would make KSB the world's ninth largest battery producer.

>> ASA Co., Ltd. (Established January 1997)

To secure technological self-sufficiency and enhance specialization in alloy wheels, Hankook Tire founded ASA Co., Ltd. in 1997. Now an independent subsidiary, ASA is honing its expertise and expanding its state-of-the-art production facilities to position itself as the world's leading maker of alloy wheels. Having earned ISO/TS 16949 certification for its automotive product quality system, together with ISO 9001 and QS 9000 certification, ASA has achieved the highest standard of product quality demanded by the world's leading carmakers. More than 60% of the company's current production volume is supplied to foreign automobile manufacturers, including Renault of France, and Nissan and Daihatsu of Japan. The first in the industry to adopt a 7,000-ton press for wheel forging on its production line, ASA also employs an independent-part modular production system. This allows customers to specify their own wheel tuning options, such as different front and back wheel sizes to make up their dream car. The company exhibited its new line of alloy wheels called "Shuk" at the 2002 Korea Auto Salon in Busan, showcasing ASA's advanced know-how and superior product and design quality in a lightweight and highly durable product that is destined to be a hit in the domestic and global markets. With an annual production volume of 2 million 1-piece cast wheels and 150,000 forge wheels, the company has set its sales target for this year at 100 billion won.

>> Daehwa Engineering & Machinery Co., Ltd. (Established February 1992)

Daehwa Engineering & Machinery Co., Ltd. (DH) was established in 1992 and specializes in the manufacture of core facilities for tire production. The company founded its own research center, where it carries out in-house development and localization of tire-making technology. DH leads the industry in the localization of tire-making equipment and technology, having succeeded in developing a TBR uniformity machine, a high-speed UHPT tire-testing machine, and a small-diameter TBR tire-building machine, which is operated by one person for Hankook Tire's Geumsan plant.

In addition, its development of a tire x-ray machine for passenger car radial and truck/bus radial tires will further propel the company into the global tire market.

On the strength of its active in-house R&D activities, Daehwa continues to enhance its profile and position as a world-class manufacturer of core tire-making facilities and machinery.

>> Hanta M & B Co., Ltd. (Acquired May 1995)

Hanta M&B Co., Ltd., the first Korean producer of non-asbestos friction materials such as brake pads and linings, also has international patents for a type of iron powder used as a friction-producing material and a method that reduces treatment processes. The domestic leader in friction materials, Hanta M&B has joined hands with top racing team Ventus, which has helped to spur development and marketing of the highest-performance braking materials for racing use, as well as ultra high-performance braking materials for tuning use. Ceramic-aramid pulp fiber and potassium titanate whisker - two key compounds used in Hanta M&B's tuning-purpose friction materials - help minimize wheel contamination ("brake fade") caused by brake dust and reduce noise during braking. These superior products boast a friction coefficient as much as 1.5 times (0.48 ~ 0.52) those found on the average passenger car (0.32 ~ 0.42). As the Ventus Cup Drag Race and events like it in Korea continue to grow in stature and popularity, there is increasing demand for automotive tuning at speed and performance levels far above those of normal passenger cars. Hanta M&B will satisfy this demand by developing Korea's best high-performance friction materials, and will also generate higher profits with growing recognition of its technological prowess from within the racing market.

>> emFrontier Co., Ltd. (Established August 2000)

Hankook Tire and METANET established emFrontier in August 2000 in a joint investment that brought together Hankook Tire's information systems know-how and systems integration capabilities with METANET's extensive business network. emFrontier functions as an e-Business integrator offering clients IT solutions including consulting, information systems outsourcing and automotive e-Business services. The company carries out a wide variety of projects for customers in the manufacturing sector, such as ERP, KMS consulting and ISP operations, as well as new business development, while continuing to develop business plans and create infrastructure for automotive e-Business and AOS. Earning over 21 billion won in total revenues since its launch in mid-2000, emFrontier seeks to maximize its own corporate value by maximizing its customers' competitiveness with optimum e-Business solutions and IT outsourcing services.



Performance

ERP Accelerates "Global Integration"

In 2002, Hankook Tire accelerated its program of "Global Integration" with the introduction of an Enterprise Resource Planning (ERP) system for operations in Europe, using the experience gained from the successful launch of ERP systems at both domestic and HANAM (Hankook Tire America) operations in 2001. On the basis of a masterplan that has been developed by the Performance Innovation (PI) Department since 2001, Hankook Tire began last year to implement its "Europe Project" to reinforce systems integration at headquarters and to integrate the company's six European subsidiaries into a single large system. The Europe Project started with a launch ceremony on June 4, 2002 at the European regional headquarters. The regional headquarters and Hankook Tire's German subsidiary were rolled out on October 1, followed by the simultaneous launch of ERP systems at the company's subsidiaries in France and Great Britain on January 2, 2003. A single ERP system integrating all six Hankook Tire European subsidiaries under the regional headquarters was finalized on March 1, 2003, with the inclusion of subsidiaries in Italy and Spain. The successful completion in March this year of the Europe Project, combining all six European units into a single system, will enable them to share real-time information on inventories via the overall integration of purchasing, sales, logistics, finance and accounting. Following completion of the Europe Project, the Performance Innovation team's "Stage Three" project calls for the setting up of ERP systems at Hankook Tire's sales subsidiaries in Japan, Australia and Canada from April to December 2003. In the meantime, the introduction of an ERP system is envisioned for Hankook Tire's operations in China, with the launch scheduled for July 2003 and completion expected by July 1, 2004. Thus, by July 2004, Hankook Tire will have greatly enhanced its global corporate stature with a single integrated ERP system spanning and uniting all of its subsidiaries across the world.

Corporate Performance Monitoring System (CPM) Launched

To implement last year's vision of "profitable growth," Hankook Tire introduced a company-wide Balanced Score Card (BSC) system and a Corporate Performance Monitoring (CPM) system to manage the execution and monitor the success or failure of corporate strategies. Hankook Tire has set Key Performance Indicators at the company-wide, divisional and departmental levels, and an evaluation system promoting responsible management and fairness has been put in place. An employee reward system has also been instituted which serves to motivate, maintain and recruit capable manpower.

These measures, along with the establishment of a performance-based corporate climate that will serve to maximize shareholder's profit, and the linking of employee incentives with the CPM for strategy execution, will become a powerful means by which Hankook Tire can maximize the effect of its performance-based system. They will also become the foundation on which the hard work of all employees can produce meaningful results in shaping the company's future.

HIGHLIGHTS >>

Mar. >> Hankook Tire - the first Korean tire maker to have a product designated the official F-3 tire in Europe

Hankook Tire's Ventus racing tire was designated the official tire of the Italian Formula 3 Championship. This accolade will greatly contribute to heightened awareness of Hankook Tire's brand image and technological capability in the European market.

>> Ventus Tire Cup 2002 KATA Drag Race kicks off

With support from Hankook Tire and ASA Alloy Wheels, the Ventus Tire Cup 2002 KATA Drag Race got underway in March at the Yongin Everland Speedway. This year marked the third year of this special racing event sponsored by

Hankook Tire. Hankook Tire's new, top-of-the-line UHPT product, the Ventus Sport K104, was rolled out for the first time at the races. The K104 garnered excellent results at the event and thereby affirmed its superior quality. In particular, since Drag machines in the pro stage quarter finals were fitted with the Ventus sport K104, the Ventus Cup 2002 KATA Drag Race served as an opportunity to demonstrate the improved capabilities of the tire in comparison with existing UHPT products such as the 405 and K102.

Apr. >> Ground-breaking ceremony held for expansion of TBR production line at Jiangsu Plant

A ground-breaking ceremony was held for the expansion of TBR (truck and bus

Jiangsu Plant TBR Line Expansion

In April 2002, in response to the competitive product quality found in China's passenger car radial (PCR) market, Hankook Tire began increasing output of truck/bus radials, which account for 60% of the entire Chinese tire market. By 2004, the company expects to invest a total of US\$60 million in its project to expand the Jiangsu factory, where annual TBR production will be increased to 250,000 units. Speaking at the groundbreaking ceremony for Hankook Tire's Jiangsu TBR facilities, Hankook Tire President Choong-Hwan Cho noted that a key determinant of corporate competitiveness in the 21st century is the ability to take an early lead in the Chinese market, where the 2008 Olympics and the country's WTO membership have contributed to 8~9% annual economic growth. He said that, in the future, with the support of all employees, the production capabilities of the Chinese plants would be expanded and their management autonomy and profitability maximized, thus creating the leading tire company in China and an export base for the world tire market. Annual TBR production capacity at the Jiangsu subsidiary will be steadily expanded to 420,000 units by 2006. To ensure that TBR sales targets are met, the company will strengthen sales activities with the early development of sales forces and the reorganization of distribution systems.

K701 Rated 1st in Auto Magazine Test

The K701 passenger car radial, one of Hankook Tire's biggest exports to the European market, has become the hot topic of the automotive industry after scoring excellent marks against other famous brands in European tire tests. The high-performance K701 beat such world-class names as Michelin and Goodyear in tire tests conducted in February 2002 by ADAC, the authoritative German automotive magazine with a readership of 18 million per month. Receiving a "very good" evaluation in the ADAC competition, Hankook Tire's entry then took top honors among 10 of the world's most celebrated brands in a test conducted by Gute Fahrt, the automobile magazine subsidiary of Volkswagen of Germany. On the basis of these positive ratings, SAT.1, one of Germany's largest TV broadcasters, introduced viewers to K701's superior quality and told them how and where to purchase them. Another German magazine, FAHRT, had this to say about the K701 in its test results: "Hankook Tire's advanced rubber composition and structural design technology give this tire its outstanding performance." The magazine gave the K701 its highest score of "very good" on nine testing criteria including noise, handling rolling resistance, and braking on dry and wet road surfaces, strongly recommending it as the best among 10 tires tested. ADAC had similar praise for the K701, also giving it top ratings: "Hankook Tire's K701 offers the best wet-road braking performance and fuel efficiency of all 21 tires we tested." Product tests like these are an important factor in the tire purchasing decisions of consumers as well as car manufacturers, which is why Hankook Tire expects its impressive showings to translate into an enhanced image and growing sales in overseas markets.

radial) production facilities at Hankook Tire's plant in Jiangsu, China. A total of US\$60 million will be invested through 2004 for the expansion project, which will give the Jiangsu Plant an annual capacity of 250,000 TBR tires. Advanced technology and strict quality controls will be utilized in constructing the state-of-the-art facilities, which will lay the foundation for Hankook Tire to become a true leader in the Chinese tire industry.

>> Hankook Tire participates in Korea's first tuning exhibition, the 2002 Korea Auto Salon in Busan

The Korea Auto Salon in Busan, held at the Busan Exhibition and Convention Center, was the first exhibition of automotive tuning equipment to be held in

Korea. Hankook Tire and ASA Alloy Wheels shared a promotional booth at the show, where various products from Hankook's UHPT Ventus line, such as the Ventus sport K104, were shown alongside ASA's high-performance wheel brand, Shuk.

May >> LTR RA08 designated "best product" in European tire tests

The superior quality of the LTR (light truck radial) RA08 was demonstrated when it was designated the "Best Product" in European tire tests supervised by the German auto magazine "ProMobil", which is published with the participation of several of the world's top tire makers.

2003 STRATEGIES AND PLANS

2003 Strategic Business Goal

"Continuous Profitable Growth"

2003 Management Strategies

>> Transition to a Market-Driven Company

- Acquire core technology to develop products that meet customers' needs
- Focus on high value-added products for optimum product mix
- Concentrate efforts on major markets to enhance profitability
- Use effective communication with customers (consumers and distribution channels) to upgrade brand image

>> Establish a Results-Based Management System

- Implement advanced Corporate Performance Monitoring (CPM)
- Complete global integration through Enterprise Resource Planning (ERP)
- Enhance organizational cohesion through employee satisfaction
- Create knowledge-based management through sharing of information and knowledge

>> Maximize Internal Efficiency through Cost Reduction

- Cut manufacturing expenses by upgrading cost-management standards
- Optimize raw and semi-processed materials logistics
- Establish advanced product quality-management process

>> Elevate Risk Management Image

- Reduce financial costs by improving financial risk management
- Prepare thoroughly for potential tire market risk

Sep. >> GD Mark conferred on Ventus K104

The Ventus K104 was designated a product of excellent industrial design. The industrial design awards are sponsored by the Ministry of Commerce, Industry and Energy (MOCIE) and are supervised by the Korea Institute of Design Promotion (KIDP). Since 1985, the KIDP has been conducting strict evaluations of products on the Korean market. Those deemed user friendly and of excellent design receive the GD Mark, which is used by general consumers as a standard for high quality.

>> Hankook Tire - first Korean manufacturer to participate in Paris Motor Show

Hankook Tire recently took part in the Paris Motor Show, which is considered one of the top four events of its type in the automotive industry. The show

served as an opportunity for leading automakers and tire producers to compete in showcasing their products. Hankook Tire displayed its European export and racing tire products. The show was attended by 543 companies from 23 countries.

Oct. >> ERP system in full operation at German subsidiary

According to Hankook's Europe Regional Headquarters, the ERP (Enterprise Resource Planning) system at Hankook Tire's local subsidiary in Germany has now gone into full operation. The ERP system will give Hankook the level of operational competitiveness it needs to respond to a unified European market in a more effective and instinctive manner. It will also enable Hankook to provide customers with improved services.

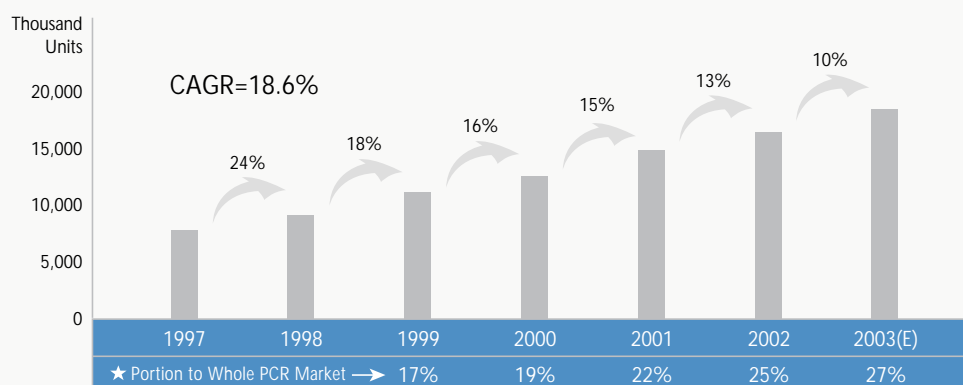
UHPT Improves Product Mix

The tire industry is in the process of shifting toward the high value-added UHPT (Ultra High Performance Tire) segment. In Europe, sales of UHPT are showing double-digit growth rates, with demand predicted to rise steadily in line with the so-called "inch up" trend among automakers. As for Hankook Tire, the company has witnessed a dramatic increase in sales of UHPT since 1999, with that segment accounting for 4.2% of total sales in 2002. From this year it is expected that the strengthening of UHPT marketing activities will have a highly favorable impact on the company's profitability.

>> Hankook Tire's UHPT Sales

Category	1999	2000	2001	2002
Percentage of sales	1.3%	1.6%	3.3%	4.2%

>> UHPT Sales Forecast for Europe (based on replacement market)



※ Source : Tyres & Accessories, 2002/03 (Goodyear Data)

>> Daejeon Plant wins at 28th National Quality Management Conference

At the 28th National Quality Management Conference, the "Smile B" and "Palbang Mi-in" teams from the Daejeon Plant Materials Section were awarded the Presidential Silver Prize. LTR Section leader Lee Pyeong-woo was selected for a presidential citation for quality. Meanwhile, Kumsan Plant TPM Office Chief Hong Keun-hwan received the Prime Minister's Award, while Daejeon Plant TPM Office Manager Kim Soo-bok was given an award from the Ministry of Commerce, Industry and Energy.

>> Hankook Tire receives award for 6-Sigma achievements

Hankook Tire was awarded a citation after being designated for its success in implementing the 6-Sigma quality initiative. Hankook Tire was one of five

companies designated at the "6-Sigma Conference 2002", which was held last October 24 by the Federation of Korean Industries. Plant Manager Kim Wui-ha of the Daejeon Plant also won an award at the conference, which was attended by more than 200 businessmen and 6-Sigma specialists.

Nov. >> Hankook Tire participates in Seoul Motor Show 2002 at COEX

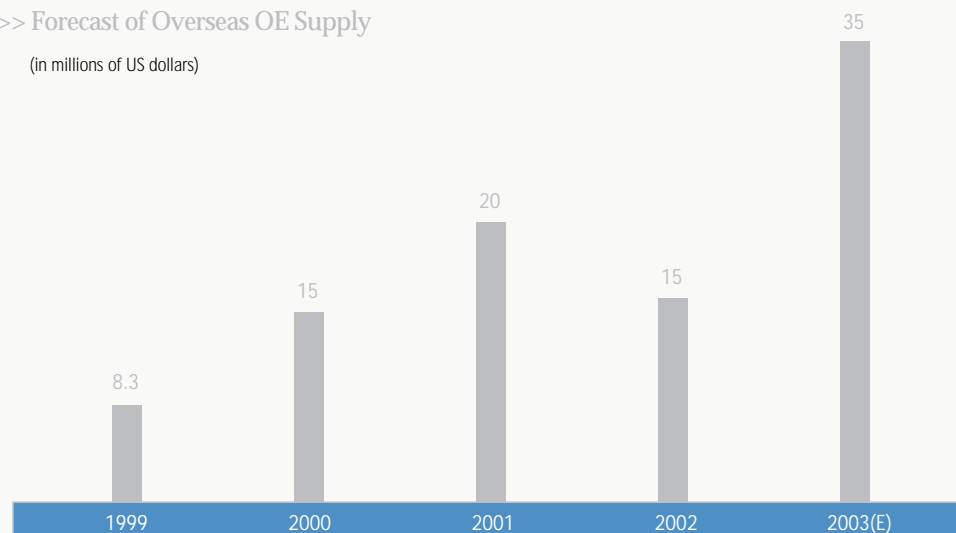
Under the theme "High Performance and Competition," Hankook Tire took part in the Seoul Motor Show 2002 and displayed different products, including the Ventus UHPT line, Formula and rally racing tires, and concept tires.

Rising Overseas OE Supply Boosts Reputation for Quality

Hankook Tire's reputation for producing tires of superior quality was highlighted in March 2002, when the company received the second highest ratings at a supplier evaluation meeting sponsored by world-class automobile manufacturer Ford Motor. The evaluation consisted of four main categories - Commercial, Technical, Quality, and Q1 rating - and was unique in terms of its in-depth focus on internal corporate capabilities. The latter included continuous productivity improvement, cost reductions through technological innovation, financial soundness, flexibility of production technology, continued expansion of R&D investment, CEO capability, and environmental adaptability. The structure of the tire industry is such that OE arrangements not only provide potential replacement demand for the tire supplier, but can also signify recognition from the world's leading automakers that the supplier has met the automotive industry's most demanding technical and quality specifications. Beginning in 1999, Hankook Tire has supplied tires through OE contracts to more than six world-class car manufacturers, including GM and Ford. The scale and range of models supplied continue to increase, as do Hankook Tire's product quality and specifications. It is expected that growing recognition of the company's technological capability and its rising global brand image, combined with demand from the replacement market, will have a dramatic effect on future sales trends. Henceforth, Hankook Tire will seek steady growth in overseas replacement markets on the strength of rising brand competitiveness by focusing on overseas OE markets, where demand is expected to rise.

>> Forecast of Overseas OE Supply

(in millions of US dollars)



Jan.
2003

>> Hankook Tire participates in Tokyo Auto Salon

Hankook Tire recently participated in the 2003 Tokyo Auto Salon, which was held January 10-12 at the Makuhari Messe (Nippon Convention Center) in Tokyo, Japan. At the Tokyo Auto Salon, Hankook aimed to demonstrate its world-class technology and dynamism as a global tire maker. Under the theme "Hankook Movement" Hankook displayed products from its UHPT Ventus series, Formula and rally racing tires that epitomize advanced tire technology, and various concept tires that offer a glimpse into the future of the tire industry.

>> Hankook Tire concludes preliminary agreement for partnership with Michelin Group

On January 28, Hankook Tire and the Michelin Group concluded a milestone partnership agreement, deciding that mutual cooperation would contribute to each company's future growth and development, in Korea and abroad. The specific details of the strategic alliance will be finalized in June, when the agreement becomes effective.

ANNOUNCEMENT OF PARTNERSHIP BETWEEN HANKOOK TIRE & MICHELIN GROUP

Hankook Tire has entered a strategic alliance with the Michelin Group, one of the world's tire industry's "big three." Highlights of the partnership include Michelin's sharing of its innovative "run-flat tire" technology based on the company's revolutionary PAX system; the manufacturing of Michelin-brand tires using Hankook Tire production facilities, and cooperation in the area of sales and distribution in certain markets such as North America. By elevating Hankook Tire's technological prominence and its brand image, this partnership is expected to have a profound effect on the company's ability to increase sales prices. In addition, Hankook Tire helped to cement the new partnership by offering Michelin Group the option to purchase up to 10% of Hankook Tire's outstanding shares on the market with no time limit indicated. The alliance is based on the principle that cooperation will enhance the strengths and reduce the weaknesses of both companies. The partnership will enable each company to utilize the relative strengths of the other to improve market competitiveness, while maintaining a strategic focus on areas where they have built up an advantage. The alliance will also enable Hankook Tire to compete as a truly global company in the face of Hyundai Motor Group's strategy of localizing its overseas operations in the United States and elsewhere, while securing stable growth in the domestic market where the entry of GM and Renault have spurred foreign tire makers to attack the Korean market. In the future, both partners will strive to expand areas of cooperation in ways that enhance corporate value for shareholders, employees and customers alike.



On January 28, 2003, Hankook Tire and the Michelin Group concluded a preliminary agreement to form a partnership of strategic benefit to both companies that will ultimately raise the corporate value of each, while maximizing shareholder and customer satisfaction.

Share Price Analysis

(Korean Won)

	1998	1999	2000	2001	2002
Stock Price (High/Low)	5,860/1,970	13,450/3,200	3,290/1,565	3,370/1,700	3,510/2,030
Number of Shares issued (in thousands)	67,049	144,719	149,061	149,061	150,189
Equity held by foreigners (%)	30.18	7.31	17.10	25.30	29.97
Dividend Rate (%)	Cash 1/Stock 3	Cash 10/Stock 3	Cash 12	Cash 12	Cash 15

※ Share Price is based on the closing price, Equity held by foreigners is based on the last trading day of the year.

Intrinsic Value and Stock Index

(Korean Won, multiples)

	1998	1999	2000	2001	2002
EPS (Earnings Per Share)	303	284	157	210	476
BPS (Book-Value Per Share)	10,126	5,455	6,182	6,248	6,578
CPS (Cash-Flow Per Share)	2,471	984	1,220	1,390	1,912
PER (High/Low)	19.4/6.5	47.5/11.3	21.0/10.0	16.1/8.1	7.4/4.3
EV/EBITDA	2.88	3.80	3.86	4.23	3.55

※ PER is based on the closing price.

Main Financial Ratios

(%)

	1998	1999	2000	2001	2002
Debt-to-Equity Ratio	162.6	140.0	111.3	102.1	87.6
Return on Equity	3.0	5.2	2.5	3.2	7.0
Int. Exp. / Sales	10.1	7.5	4.4	4.2	2.6

Hankook Tire Share Price vs. KOSPI

(Korean Won, pt)



During the past year, Hankook Tire's share price generally mirrored the fluctuations of the Korea Composite Stock Price Index (KOSPI) - until the start of 2003, when the company's stock gained strongly despite a steep decline on the KOSPI. Both the KOSPI and the company's share price peaked around mid-April 2002, after which a fire at Hankook Tire's Geumsan factory and increased facilities investments stoked investor concerns about increased depreciation expenses which might aggravate a possible decline in the rate of return. However, in the first half of the year the company resumed rapid income growth, took the top position in China's passenger car tire market, was ranked tenth in global production capacity, and enjoyed rising brand recognition. These positive factors all ensured that Hankook Tire's share price stood firm throughout the latter half of 2002. Particularly noteworthy was the steady increase in foreign shareholdings from 25-27% of total outstanding shares in October of 2002 to 32% as of the end of January 2003. In line with these favorable trends, sales and net income increased 12% and 128%, respectively, over 2001. Investors have likewise been encouraged by the company's strategic alliance with the Michelin Group and the various steps being taken to transform Hankook Tire into a market-driven company. Looking ahead, it is expected that if current steady growth trends continue and future corporate value is adequately recognized, Hankook Tire will remain one of the stock market's major attractions in 2003.

Hankook Tire established an Investor Relations (IR) team in 1998 to cultivate investor trust, ensure transparent and shareholder-oriented management, and carry out aggressive IR promotion and investor management activities. Through its IR activities, Hankook Tire gathers the opinions of shareholders, which are then reflected in management strategies and business activities. The results are made public to shareholders. This allows investors to accurately evaluate Hankook Tire's corporate value, thus maximizing their potential returns, while giving the company the opportunity to demonstrate its commitment to transparency, investor trust and value creation.

IR Activities in 2002

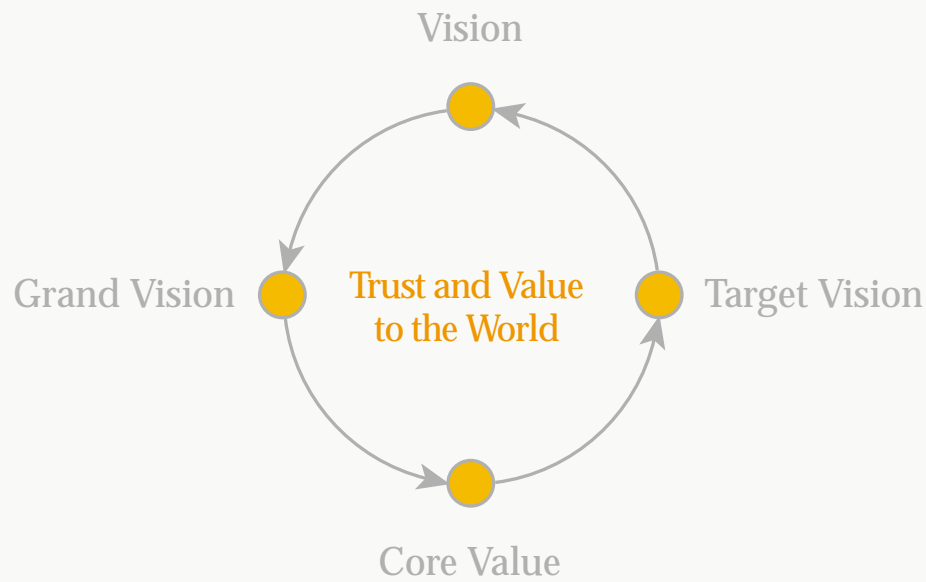
- **Annual Report (Korean) published and distributed:** March 14, 2002
- **Annual General Shareholders' Meeting:** March 15, 2002
 - Announced company's "Win-Win" Strategic Vision
- **4th IR Visit to Hankook Tire (Jiaxing) Co. in China:** April 16-18, 2002
 - Securities analysts and fund managers also participated
- **Analysts' Meeting:** May 7, 2002
 - For tire industry analysts; corporate strategy officer participated
- **Annual Report published and distributed:** May 23, 2002
- **1st-Quarter Report published and distributed**
 - May 24, 2002 (to shareholders with minimum 2,000 shares as of Dec. 31, 2001)
 - Gifts for Shareholder Questionnaire respondents: Small
 - gifts awarded through lottery on July 10, 2002
- **1st-Half Performance Meeting:** Aug. 12, 2002 (Yoido DLI 63 Building)
 - For tire industry analysts; corporate strategy officer participated
- **Semi-annual Report published & distributed**
 - Aug. 14, 2002 (to shareholders of minimum 2,000 shares as of Dec. 31, 2001)
 - Gifts for Shareholder Questionnaire respondents: Small
 - gifts awarded through lottery on October 7, 2002
- **3rd-Quarter CEO's Message to Shareholders delivered:** Nov. 15, 2002

Main IR Strategies for 2003

- **Expansion of IR activities targeting foreign investors** (non-deal road shows, visits to overseas worksites, creating English-language IR materials)
- **Establish website exclusively for IR to strengthen communication with private investors**
- **Hold monthly meetings for industry analysts and fund managers** (periodic meetings with CFO)
- **Have IR programs evaluated by outside organization and carry out ongoing improvements**



Trust and Value to the World



Grand Vision

Our Vision is to Gain Trust by and Offer Value to the Stakeholders by Providing Quality Products and Services. We Empower Our Employees to be Creative and Professional to Achieve our Vision Goal.

Target Vision

Value and Quality **To Customers**
 Reward and Pride **To Employees**
 Profit and Wealth **Growth To Shareholders**
 Reliability and Stable Companionship **To Partners**
 Contribution of Our Success **To the Society**

Core Value

To Achieve Our Vision, We Expect Our Employees to be Creative, Professional, Goal-Oriented, and Responsible

Overview

In the 2002 fiscal year, Hankook Tire recorded year-on-year increases in sales and net income of 12.4% and 128.6% respectively. Although there were concerns in the immediate aftermath of the fire at the company's Geumsan Plant in March of last year, prompt countermeasures soon restored normal operation and, combined with favorable trends in domestic OE sales and continually rising overseas orders, comparatively satisfactory results were achieved. Moreover, despite increased raw materials prices and the rapid revaluation of the won against the dollar, orders grew steadily as greater efficiencies provided by the activation of the ERP (Enterprise Resource Planning) system enabled the company to reduce inventories by more than 20% and achieve stable supply management. Innovative cost reduction efforts and transparent business processes further contributed to maximizing the company's business results. In the future, Hankook Tire will strive to compete head to head with the leaders of the global tire industry, adopting a market-driven management strategy of brand positioning based on outstanding tire quality and production capabilities.

Sales

Hankook Tire posted total tire sales of 1.5785 trillion won for 2002. This figure represents a 12.4% year-on-year increase over 1.4049 trillion won achieved in 2001, and reflects gains of more than 10% in both domestic and export sales.

(in thousands of tires, in billions of Korean won)

		2001		2002	
		Quantity	Amount	Quantity	Amount
Tires	Exports	20,735	816	23,060	896
	Domestic Sales	9,532	464	10,470	516
	Total	30,267	1,280	33,530	1,412
Other Products			65		63
Housing sales			60		104
Total			1,405		1,579

Shipments to Central and South America were down slightly on the previous year. However, Europe and North America both showed sizable local sales increases on greater marketing efforts by Hankook Tire and brisk exports of UHPT and other high-value-added products. Hankook Tire's business prospects for 2003 are particularly bright, thanks to efforts to reinforce market analysis capabilities and marketing strategies, together with the expected enhancement of brand awareness through the conclusion of the strategic alliance with the Michelin Group.

(in billions of Korean won)

	2001	2002
North America	178	228
South and Central America	101	70
Asia	192	206
Europe	251	290
Other	31	37
Local Sales	73	74
Domestic	579	674
Total	1,405	1,579

Earnings ● >> Cost of goods sold & Selling and administrative expenses / Operating income

Hankook Tire's operating income for 2002 declined 13.2% from the previous year to 103.3 billion won. Although sales grew by 12.4% year-on-year, the combined effect of higher raw materials prices and depreciation expenses of 22.1 billion pushed up the overall cost of sales. While the price of natural rubber rose to US\$900 per ton from US\$500 per ton at the beginning of 2002, internal cost reduction efforts helped reduce the effect. Meanwhile, on the selling and administrative expenses ledger, the company established allowances for trouble notes receivable and accounts receivable from Daewoo Motor Company, in addition to setting aside allowances for product liability insurance and product claim expenses. These increased costs served to slightly reduce operating income.

(in billions of Korean won)

	2000	2001	2002
Sales	1,313	1,405	1,579
Cost of goods sold & Selling and administrative expenses	1,207	1,286	1,476
Operating Income	106	119	103
Operating Income Ratio	8.1%	8.5%	6.5%

>> Non-operating items / Ordinary income / Extraordinary items / Net income

Non-operating income in 2002 recorded -29.1 billion won as a result of the steady redemption of over 180 billion won worth of debt and the positive effect of exchange rate changes, resulting in a sharp improvement of 62.7% over the -78.0 billion won figure of 2001. Despite a small decline in interest income, foreign transaction and translation gains, among other factors, led to a 14.9-billion-won improvement in non-operating income over the previous year. Debt reduction and lower interest rates cut the company's total interest expenses by 18.9 billion won, and losses from debt repayment were also reduced, shrinking non-operating expenses by 34 billion won for a 25.5% improvement over the previous year. As a result, ordinary income of 74.2 billion won was achieved. This represents an 81% increase over the previous year's 41 billion won, and signifies an ordinary income to total sales ratio of 4.7%.

In extraordinary items, the fire at the Geumsan Plant in March last year resulted in 18.5 billion won in insurance proceeds being recorded as an extraordinary gain. Net income for the fiscal term, after deducting income tax expenses, was 69.5 billion won, up 129% over the figure of 30.4 billion won attained in the previous year. Earnings per share of 476 won were also recorded. The book value of inventories and fixed assets damaged in the Geumsan Plant fire were 3.95 billion won and 32.99 billion won, respectively. Hankook Tire had estimated losses from the fire at 55.47 billion won, though only 38.35 billion won of that amount was actually paid out by its insurance company within the fiscal term.

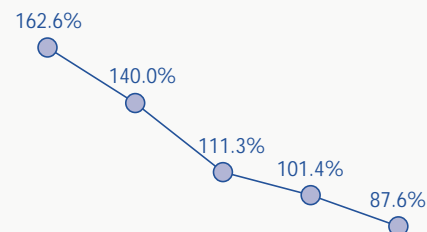
(in billions of Korean won)

	2000	2001	2002
Sales	1,313	1,405	1,579
Ordinary Income	34	41	74
Ordinary Income Ratio	2.6%	2.9%	4.7%
Net Income	23	30	70
Net Profit Margin	1.8%	2.2%	4.4%

Financial Environment

Owing to the sale of residual property at the former Incheon Plant and the sale of several branch outlets, Hankook Tire's total assets as of December 31, 2002 stood at 1.8573 trillion won, reflecting a decrease of approximately 3% compared to 2001.

Total liabilities as of the end of December 2002 were 525.7 billion won, including 425.9 billion in total debt, which were down 188 billion won from the end of 2001. Favorable business performance allowed Hankook Tire to use operating income to repay debt, thereby significantly reducing the company's debt ratio to 87.6%. The company's repayment of debt, high credit rating, and low interest rates were all factors that helped reduce interest expenses by 32% year-on-year, thereby strengthening Hankook Tire's financial soundness.



1998 1999 2000 2001 2002

>> Debt-to-Equity Ratio

(in billions of Korean won)

	2000	2001	2002
Total Assets	1,948	1,916	1,857
Total Liabilities	1,026	965	867
Total Shareholders' Equity	922	951	990
Debt-to-Equity Ratio	111.3%	101.4%	87.6%
Return on Equity	2.5%	3.2%	7.0%

Business Strategies about Market Risk

Raw materials account for over 40% of the total sales price of a tire, and other than natural rubber - which is imported from Southeast Asia - these can be sourced domestically. Purchases of these raw materials are typically made in US dollars, so the impact of exchange rate fluctuations on exports is relatively low because of the "built-in" hedge function. Moreover, to secure natural rubber - the main raw material for tires - Hankook Tire has concluded purchasing contracts with several suppliers, including Tack Bee Hang. It renews these contracts on an annual basis to ensure a stable raw material procurement structure. Because crude oil and natural rubber price hikes cannot generally be offset through higher product prices, they have a major impact on the company's profitability. However, in long-term contracts, price changes do not affect raw material costs. Efforts are therefore made to control and reduce other kinds of materials costs that do have an impact on sales expenses. Furthermore, to minimize market risks posed by external factors, Hankook Tire seeks to strengthen its domestic distribution network and diversify export markets and export channels. In order to reduce the risk of losses due to exchange rate fluctuations, which affects both foreign currency holdings and foreign currency debt, the company also concluded forward exchange contracts with Citibank and other institutions at the end of December 2002, involving the sale and purchase of US dollars at agreed rates upon expiration of the contracts. Gains and losses stemming from forward exchange contracts in 2002 were 6.7 billion won and 2.5 billion won, respectively.

Market Environment Characteristics and Response Strategies

Structurally, the tire market is divided into two main markets, namely, the OE (original equipment) market for new car tires, and the RE (Replacement Equipment) market, which is based on vehicles already on the road. OE sales are connected to new car production figures, while RE sales are closely related to the number of vehicles on the road as well as current economic conditions.

Because tires are a core part of a new automobile model from its development stage, tire makers face difficult barriers in penetrating the OE market. The big three manufacturers, Michelin, Bridgestone and Goodyear, together maintain a monopolistic 56.6% share of the global market, while Hankook Tire ranks ninth in sales overall. In the area of passenger car radials, Hankook Tire is approaching world-class quality levels. Because its products are somewhat lower priced, however, Hankook is concentrating on securing profitability by bolstering quality development and marketing activities.

As part of its strategy for responding to market conditions and changes, Hankook Tire has laid the foundation for a new take-off with the formation of a strategic partnership with one of the big three: the Michelin Group of France. Under this partnership, Michelin will share its revolutionary "Run Flat Tire" manufacturing technology, known as the PAX system. Utilizing Hankook Tire's production facilities, Michelin brand tires will be manufactured and sold in the U.S. and other designated markets. Hankook Tire forecasts that this partnership will greatly contribute to further enhancing its own brand image and securing quality/price competitiveness in overseas markets.

In addition, Hankook currently ranks No.1 in the Chinese market for passenger car tires with a 26% market share. Although Hankook now ranks seventh in the overall market with a 6.3% share, it has set itself the aggressive goal of achieving the top position in the overall Chinese market by 2005. This will be accomplished by expanding the operations of the local subsidiary through 2007. Considering the ongoing rapid growth of the Chinese automobile market, Hankook expects its position in China to see continuous improvement.

At the same time, the tire market is currently seeing a rapid trend towards the high value-added segment of UHPT (ultra high performance tire). In Europe, the UHPT market is recording double-digit growth every year. In the future, this demand is expected to increase along with the trend for converting OE tires. Although Hankook Tire has also seen its sales of UHPT grow rapidly, UHPT products still only account for 4.2% of overall sales. In line with expected future changes in the market environment, Hankook plans to bolster marketing activities to expand UHPT sales from 2003. In combination with the existing products market, diversification of its sales mix will enable Hankook to improve profitability.

Internally, Hankook Tire improved profitability through better management efficiency and cost reductions with the successful introduction of the ERP system domestically and at HANAM, Hankook Tire's subsidiary in North America. In light of these achievements, Hankook Tire will gradually introduce the ERP system at its local subsidiaries and sales networks in other areas as a step toward its goal of becoming firmly established as a world-class tire maker. From 2003, Hankook Tire will aggressively implement EVA (economic value added) as a guidepost for its management objectives. This is part of Hankook Tire's strategy of realizing value-centered management that focuses on maximizing investment efficiency.

FINANCIAL STATEMENTS >>

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying non-consolidated balance sheets of Hankook Tire Co., Ltd. (the "Company") as of December 31, 2002 and 2001, and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the years then ended, expressed in Korean Won. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hankook Tire Co., Ltd. as of December 31, 2002 and 2001, and the results of its operations, the changes in its retained earnings and its cash flows for the years then ended, in conformity with financial accounting standards generally accepted in the Republic of Korea.

Without qualifying our opinion, we draw your attention to the following matters.

As discussed in Note 25 to the accompanying non-consolidated financial statements, the Company sells its products to, and purchases certain materials from, its subsidiaries and affiliated companies in the normal course of business. During the year ended December 31, 2002, the Company's total sales to and purchases from its subsidiaries and affiliated companies amounted to ₩ 402,746 million and ₩ 167,574 million, respectively, and related receivables and payables as of December 31, 2002 amounted to ₩ 13,027 million and ₩ 31,388 million, respectively. Also, as discussed in Notes 3 and 16 to the accompanying non-consolidated financial statements, the Company has provided guarantees amounting to ₩ 233,037 million with respect to financing by its subsidiaries and affiliated companies as of December 31, 2002. Time deposits in Korean Won of ₩ 4,800 million and time deposits denominated in foreign currencies of ₩ 33,501 million are pledged as collaterals for guarantee for its subsidiaries and affiliated companies. During the year ended December 31, 2001, the Company's total sales to and purchases from its subsidiaries and affiliated companies amounted to ₩ 328,184 million and ₩ 122,838 million, respectively, and related receivables and payables amounted to ₩ 26,644 million and ₩ 29,565 million, respectively, as of December 31, 2001. Also, the Company provided guarantees amounting to ₩ 266,932 million with respect to financing by its subsidiaries and affiliated companies as of December 31, 2001.

As discussed in Note 16 to the accompanying non-consolidated financial statements, the Company is named as a defendant in legal actions filed at Tarrant County Court, Texas in the United States of America, with regard to entering into an agreement for a US\$28 million Floating Rate Note on December 1998. The Company believes that the outcome of these matters is uncertain. The ultimate effect of these uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying non-consolidated financial statements related to such uncertainties.

As discussed in Note 24 to the accompanying non-consolidated financial statements, the Securities and Futures Commission of Korea noticed that the Company's financial statements as of and for the years ended December 31, 2001, 2000 and 1999 should have been restated to reflect income arising from the operations of offshore financial entities incorporated and controlled by the Company. Accordingly, the Company's financial statements as of and for the year ended December 31, 2001, presented herein for comparative purpose, were restated to reflect income on prior period adjustments, which increased retained earnings as of January 1, 2001, capital adjustments in shareholders' equity as of December 31, 2001 and net income for the year ended December 31, 2001 by ₩ 5,669 million, ₩ 427 million and ₩ 156 million, respectively. Due to this restatement, such financial statements are different from the ones approved during the annual shareholders' meeting held on March 15, 2002. In addition, with respect to this transaction, the Financial Supervisory Commission took warning and administrative actions on the Company for non-compliance with reporting requirements in accordance with the relevant regulations for foreign exchange controls.

As discussed in Note 31 to the accompanying non-consolidated financial statements, certain production facilities and inventories located in the Company's Kum-san factory was destroyed by fire in March 2002. The book value of the damaged inventories and property, plant and equipment amounted to ₩ 3,952 million and ₩ 32,990 million, respectively. Total insurance coverage for the Kum-san factory amounted to ₩ 554,619 million, out of which the estimated coverage for the damaged assets amounted to ₩ 137,239 million. Based on the insurance contracts, the Company estimates the insurance proceeds to be ₩ 55,470 million, out of which, as of December 31, 2002, the Company has received ₩ 38,346 million from the insurance companies, and recognized ₩ 18,528 million as extraordinary gains. Such estimated insurance proceeds are based on the Company's discussion with the insurance companies, and, upon settlement, actual results may differ from the estimated proceeds amount.

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



Seoul, Korea
January 28, 2003

※ This report is effective as of January 28, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

NON-CONSOLIDATED BALANCE SHEETS

As of December 31, 2002 and 2001

In Thousands of Korean Won

	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 3, 5 and 32)	₩ 56,451,634	₩ 1,020,609
Short-term financial instruments (Notes 3 and 5)	43,300,763	35,167,690
Marketable securities (Note 8)	1,855,209	–
Trade accounts and notes receivable, net (Notes 4 and 5)	187,991,892	163,178,500
Short-term loans, net (Notes 6 and 28)	494,511	574,324
Inventories (Note 7)	146,226,455	208,765,198
Other accounts receivable (Notes 4 and 31)	35,603,215	16,504,117
Accrued income	14,836,636	18,876,397
Accounts receivable on construction contracts (Note 29)	2,641,057	–
Advance payments on construction contracts	–	13,973,283
Other current assets	13,051,996	9,409,895
Total current assets	502,453,368	467,470,013
Property, plant and equipment, net (Notes 9 and 10)	1,106,784,346	1,200,828,821
Long-term financial instruments (Note 3)	24,500	24,500
Investments (Note 8)	196,787,944	194,011,674
Long-term loans, net (Notes 6 and 28)	418,719	1,317,764
Long-term accounts receivable (Note 4)	40,137	–
Non-current guarantee deposits	7,284,365	5,641,857
Long-term other accounts receivable (Note 4)	357,061	6,961,254
Deferred income tax assets (Note 21)	30,171,147	25,990,658
Intangible assets	13,000,680	13,896,963
Total assets	₩ 1,857,322,267	₩ 1,916,143,504

The accompanying notes are an integral part of these non-consolidated financial statements.

In Thousands of Korean Won

	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings (Notes 5 and 11)	₩ 113,096,107	₩ 190,627,201
Current maturities of long-term debt (Notes 5 and 11)	193,348,831	153,531,231
Trade accounts and notes payable (Note 5)	116,802,735	80,871,638
Other accounts payable	113,414,216	85,223,258
Advances received	3,784,451	6,579,618
Advances received on construction contracts	–	39,341,899
Dividends payable (Note 19)	10,974,459	8,712,788
Accrued expenses	14,551,046	14,394,150
Income taxes payable (Note 21)	21,270,011	10,532,252
Current guarantee deposits	19,253,157	21,236,084
Other current liabilities	8,470,444	3,015,272
Total current liabilities	614,965,457	614,065,391
Debentures, net of current maturities and discounts on debentures (Note 12)	176,558,445	234,198,060
Long-term borrowings, net of current maturities (Notes 5 and 12)	42,682,725	94,120,619
Long-term lease payable, net of current maturities (Notes 5 and 13)	–	2,198,623
Long-term other payables (Note 15)	14,494,390	2,401,696
Accrued severance benefits, net (Note 14)	18,575,944	17,644,225
Total liabilities	867,276,961	964,628,614
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Common stock (Note 1)	75,094,965	74,530,449
Capital surplus		
Paid in capital in excess of par value	91,659,752	90,337,906
Revaluation surplus (Note 17)	456,473,224	456,473,224
Other capital reserves	51,877,387	51,778,005
Retained earnings (Note 18)	304,009,774	245,603,650
Capital adjustments (Note 20)	10,930,204	32,791,656
Total shareholders' equity	990,045,306	951,514,890
Total liabilities and shareholders' equity	₩ 1,857,322,267	₩ 1,916,143,504

The accompanying notes are an integral part of these non-consolidated financial statements.

NON-CONSOLIDATED INCOME STATEMENTS

For the years ended December 31, 2002 and 2001

In Thousands of Korean Won

	2002	2001
Sales (Notes 25, 29 and 30)	₩ 1,578,516,480	₩ 1,404,977,821
Cost of sales (Notes 25, 26 and 29)	1,161,628,721	1,014,233,246
Gross profit	416,887,759	390,744,575
Selling and administrative expenses (Note 26)	313,611,732	271,728,188
Operating income (Note 30)	103,276,027	119,016,387
Non-operating income:		
Interest income	7,951,808	11,738,426
Dividend income	1,000	–
Gain on disposal of investments	24,411	–
Foreign exchange gains	26,551,042	20,536,990
Gain on foreign currency translation	9,525,651	1,428,684
Gain on disposal of property, plant and equipment	3,268,724	2,406,062
Royalty fee income	7,781,424	5,846,377
Rental income	2,411,968	2,559,322
Currency forward transaction gains (Note 16)	6,699,879	2,374,460
Gain on valuation of currency forward assets (Note 16)	977,999	–
Others	5,223,824	8,581,991
	70,417,730	55,472,312
Non-operating expenses:		
Interest expenses	40,449,735	59,399,236
Foreign exchange losses	21,997,539	21,960,921
Loss on foreign currency translation	3,701,271	4,469,786
Loss on valuation of marketable securities	144,791	–
Loss on disposal of investments	26,416	14,302
Loss on disposal of property, plant and equipment	7,944,306	2,919,977
Loss on sale of accounts receivable	12,665,653	13,418,442
Loss on valuation of investments using the equity method (Note 8)	5,356,342	6,754,144
Impairment loss on investment securities (Note 8)	472,984	137,332
Donations (Note 28)	2,817,989	1,108,000
Loss on redemption of debentures	–	11,872,663
Loss on valuation of inventories	–	2,635,010
Currency forward transaction losses (Note 16)	2,549,969	3,312,016
Loss on valuation of currency forward assets (Note 16)	–	221,580
Others	1,370,652	5,270,729
	99,497,647	133,494,138
Ordinary income	74,196,110	40,994,561
Extraordinary gains (Note 31)	₩ 18,527,510	₩ –
Extraordinary losses	–	–
Income before income taxes	92,723,620	40,994,561
Income tax expense (Note 21)	23,235,545	10,557,049
Net income	₩ 69,488,075	₩ 30,437,512
Earnings per share (in Korean Won) (Note 22)		
Basic ordinary income per share	₩ 386	₩ 210
Basic earnings per share	₩ 476	₩ 210
Diluted ordinary income per share	₩ 386	₩ 208
Diluted earnings per share	₩ 476	₩ 208

The accompanying notes are an integral part of these non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF APPROPRIATIONS OF RETAINED EARNINGS

For the years ended December 31, 2002 and 2001
Date of appropriations: March 14, 2003 for 2002 and March 15,
2002 for 2001

In Thousands of Korean Won

	2002	2001
Retained earnings before appropriations:		
Unappropriated retained earnings carried over from the prior year, as adjusted (Notes 18 and 24)	₩ 17,034,317	₩ 15,603,792
Changes in retained earnings arising from equity method accounting	(117,707)	–
Net income for the year	69,488,075	30,437,512
	86,404,685	46,041,304
Transfers from voluntary reserve:		
Reserve for technological development	10,000	210,000
Reserve for export loss	366,667	376,667
Reserve for overseas market development	1,100,000	1,110,000
	1,476,667	1,696,667
Appropriations of retained earnings (Note 18):		
Legal reserve	8,000,000	4,000,000
Reserve for business rationalization	–	6,000,000
Reserve for dividend equalization	15,000,000	5,000,000
Reserve for the retirement benefits of directors	4,000,000	2,000,000
Voluntary reserves	25,000,000	5,000,000
Dividends (Note 19):		
Cash dividends	10,964,245	8,703,654
	62,964,245	30,703,654
Unappropriated retained earnings carried forward to the subsequent year	₩ 24,917,107	₩ 17,034,317

The accompanying notes are an integral part of these non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2002 and 2001

In Thousands of Korean Won

	2002	2001
Cash flows from operating activities:		
Net income	₩ 69,488,075	₩ 30,437,512
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	164,864,729	144,337,213
Amortization of intangible assets	1,681,616	769,673
Provision for severance benefits	24,695,232	16,023,940
Loss on valuation of inventories	–	2,635,010
Loss on valuation of marketable securities	144,791	–
Loss on sale of accounts receivable	12,665,653	13,418,442
Amortization of discount on debentures, net	4,388,762	9,342,140
Loss on redemption of debentures	–	11,872,663
Currency forward transaction losses (gains), net (Note 16)	(4,149,910)	937,556
Loss (gain) on valuation of currency forward, net (Note 16)	(720,392)	316,104
Loss on valuation of investments using the equity method	5,356,342	6,754,144
Loss on disposal of investments, net	2,005	14,302
Impairment loss on investment securities	472,984	137,332
Loss on disposal of property, plant and equipment, net	4,675,582	513,915
Loss (gain) on foreign currency translation, net	(5,824,380)	3,041,102
Changes in operating assets and liabilities:		
Increase in trade accounts and notes receivable, net	(37,814,094)	(1,358,442)
Decrease in inventories	62,538,742	19,161,611
Increase in other accounts receivable, net	(19,099,097)	(150,942)
Decrease (increase) in accrued income	4,039,762	(2,904,522)
Increase in accounts receivable on construction contracts	(2,641,057)	–
Decrease in advance payments on construction contracts	13,973,283	5,557,654
Decrease (increase) in other current assets	(3,178,002)	5,118,211
Decrease in long-term other accounts receivable	6,239,271	2,029,586
Increase in deferred income tax assets	(4,180,489)	(7,352,568)
Increase (decrease) in trade accounts and notes payable	10,134,400	(23,086,870)
Increase in other accounts payable	28,190,957	17,849,958
Increase (decrease) in accrued expenses	156,896	(7,785,908)
Increase in income taxes payable	10,737,758	6,602,269
Increase (decrease) in advances received	(2,795,167)	3,399,254
Decrease in advances received on construction contracts	(39,341,899)	(161,041)
Increase (decrease) in current guarantee deposits	(1,982,927)	924,032
Increase in other current liabilities	3,061,329	381,490
Increase in long-term other payables	12,302,923	2,401,696
Payment of severance benefits	(33,629,981)	(32,974,955)
Decrease in contributions to the National Pension Fund	1,450,713	1,955,801
Others, net	2,722,648	(378,587)
Net cash provided by operating activities	₩ 288,627,058	₩ 229,778,775

The accompanying notes are an integral part of these non-consolidated financial statements.

In Thousands of Korean Won

	2002	2001
Cash flows from investing activities:		
Decrease (increase) in short-term financial instruments, net	₩ (8,543,768)	₩ 35,103,796
Proceeds from short-term loans, net	604,225	1,605,089
Disposal of long-term financial instruments	–	2,500
Disposal of investment securities	2,808,405	87,972
Proceeds from long term loans, net	500,157	238,284
Increase in non-current guarantee deposits, net	(1,642,510)	(585,449)
Decrease (increase) in currency forward assets, net	3,670,724	(3,706,728)
Proceeds from disposal of property, plant and equipment	94,624,140	14,474,767
Decrease in severance insurance deposits, net	8,415,757	22,118,913
Acquisition of marketable securities	(2,000,000)	–
Acquisition of investment securities	(33,114,843)	(33,228,435)
Acquisition of property, plant and equipment	(170,559,668)	(162,361,911)
Acquisition of intangible assets	–	(2,670,004)
Net cash used in investing activities	(105,237,381)	(128,921,206)
Cash flows from financing activities:		
Issuance of debentures	68,233,474	120,875,236
Proceeds from long-term debt	212,380,574	15,352,919
Decrease in short-term borrowings, net	(50,692,749)	(17,079,160)
Payment of dividends	(8,702,573)	(8,696,425)
Repayment of current maturities of long-term debt	(152,418,804)	(151,537,108)
Early repayment of convertible bonds	–	(25,747,745)
Early repayment of long-term debt	(196,758,574)	(39,782,692)
Net cash used in financing activities	(127,958,652)	(106,614,975)
Net increase (decrease) in cash and cash equivalents	55,431,025	(5,757,406)
Cash and cash equivalents at the beginning of the year (Note 32)	1,020,609	6,778,015
Cash and cash equivalents at the end of the year (Note 32)	₩ 56,451,634	₩ 1,020,609

The accompanying notes are an integral part of these non-consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2002 and 2001

1. The Company

Hankook Tire Co., Ltd. (the "Company") was incorporated in May 1941 under the laws of the Republic of Korea to manufacture and sell tires, tubes and alloy-wheels. In 1968, the Company offered its shares for public ownership and all of the Company's shares were registered with the Korea Stock Exchange. The Company's headquarters is located at Kangnam-Gu in Seoul and two manufacturing factories are in Daejeon and Kum-san. In 2000, the Company launched its housing construction business.

During 2002, the Company issued an additional 1,129,032 common shares, at a conversion price of ₩ 1,674 per share, arising from the conversion of convertible bonds, resulting to an increase in additional paid-in capital by ₩ 1,321,846 thousand.

The authorized number of the Company's common shares is 250,000,000 with a par value of ₩ 500 per share. As of December 31, 2002, the issued and outstanding common shares of the Company are 150,189,929 shares.

The Company's shareholders as of December 31, 2002 and 2001 are as follows:

	2002		2001	
	Number of Shares Owned	Ownership Ratio (%)	Number of Shares Owned	Ownership Ratio (%)
Cho, Yang Rae	23,808,097	15.9	23,808,097	16.0
Cho, Hyun Beom	10,798,251	7.2	10,798,251	7.2
Cho, Hyun Sik	8,817,786	5.9	8,607,786	5.8
Cho, Yang Rae's relatives	9,446,094	6.3	9,680,092	6.5
Eastern Investment SA	7,380,540	4.9	7,380,540	5.0
SNOWDON-MAST B.V.	7,375,000	4.9	7,375,000	4.9
EL 2 S.A.	7,345,640	4.9	7,345,640	4.9
Others (*)	75,218,521	50.0	74,065,491	49.7
	150,189,929	100.0	149,060,897	100.0

(*) Including 4,000,000 shares in treasury (see Note 20).

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its non-consolidated financial statements in accordance with Financial Accounting Standards of the Republic of Korea are summarized below:

Basis of Financial Statement Presentation

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with financial accounting standards generally accepted in the Republic of Korea. The accompanying non-consolidated financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these non-consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. Certain information attached to the Korean language non-consolidated financial statements, but not required for a fair presentation of the Company's financial position and results of operations, is not presented in the accompanying non-consolidated financial statements.

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Revenue Recognition

Sales of finished products and merchandise are recognized when delivered. Housing construction contract revenues are recognized using the percentage-of-completion method, measured principally by the percentage of costs incurred to date to total estimated contract costs.

Marketable Securities, Investments in Affiliates and Other Investments

All marketable securities and investments in equity and debt securities are initially carried at cost, including incidental expenses, with cost determined using the weighted average method. Marketable securities and investments in marketable equity securities of non-controlled investees are carried at fair value. Temporary changes in fair value are recorded in current operations for marketable securities and recorded in the capital adjustments account, a component of shareholders' equity, for investments in marketable equity securities.

Investments in non-marketable equity securities of non-controlled investees are reported at cost, except for declines in the Company's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent, which are recorded as valuation losses in current operations.

Investments in debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for unamortized discounts or premiums. Premiums and discounts on debt securities held to maturity are amortized over the term of the debt using the effective interest rate method. Other investments in debt securities are carried at fair value. Temporary differences between the fair value and amortized cost are accounted for in the capital adjustments account, a component of shareholders' equity. Declines in fair value, which are anticipated to be permanent, are recorded in current operations after eliminating any previously recorded capital adjustment for temporary changes.

Investments in equity securities of companies over which the Company exercises a significant control or influence are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in book value of the investee.

Accounting policies on the equity method of accounting are summarized as follows:

- Differences between the purchase costs and net book value at the time of acquisition are amortized over ten years using the straight-line method.
- Unrealized profit on inventories and property, plant and equipment arising from intercompany transactions is determined based on the average gross margin ratio of the selling company. Unrealized profit arising from sales by the Company to the equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company or other equity method investees is also eliminated considering the percentage of ownership.
- Significant differences in accounting policies for similar transactions or accounting events among the Company and equity method investees are adjusted using the equity method of accounting.
- Foreign currency financial statements of equity method investees are translated into Korean Won using the basic exchange rates in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.
- The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share of accumulated losses equals the costs of the investments and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods that the equity method was suspended. However, the estimated contingent losses arising from the collectibility of the Company's receivables and guaranteed obligations of the investee or commitments to provide further financial support for the investee are recorded as an allowance for doubtful accounts or an allowance for contingent liabilities.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts, notes and other accounts receivable based on historical collection experience and estimated collectibility of the receivables.

Inventories

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

Finished goods and work-in-process	: Weighted average method
Raw materials, merchandise and supplies	: Moving average method
Materials in-transit	: Specific identification method

When the net realizable value of inventory is less than its cost, the carrying amount is adjusted to the net realizable value.

Present Value Discount

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loan (borrowing) transactions are stated at present value if the difference between the nominal value and present value is material. Such differences are presented as present value discounts and directly deducted from the nominal value of the related receivables or payables. Also, the present value discount is amortized using the effective interest rate method as interest expense or interest income.

Troubled accounts receivable under work-out plans or other similar restructuring arrangements are restated at present value upon the date of restructuring. Such present value discounts are recognized as the difference between the nominal amount and present value and are initially against the allowance for doubtful accounts to the extent available, and any remaining difference is recorded as current bad debt expense. Subsequent amortization of these present value discounts is included in interest income.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, except for upward revaluation in accordance with the Asset Revaluation Law of Korea. Depreciation is computed using the declining-balance method (straight-line method for buildings and structures) over the estimated useful lives as follows:

	Estimated Useful Lives	
Buildings	13 - 60	years
Structures	2 - 40	"
Machinery and equipment	2 - 18	"
Vehicles	2 - 10	"
Tools, furniture and fixtures	2 - 30	"

Routine maintenance and repairs are charged to expense in the year they are incurred. Expenditures that enhance the value or materially extend the useful life of the assets involved are capitalized as additions to property, plant and equipment.

Interest costs incurred in connection with the purchase or construction of property, plant and equipment are capitalized as part of the cost of such assets. Interest cost capitalized in 2002 and 2001 amounted to ₩ 3,378,890 thousand and ₩ 4,090,370 thousand, respectively.

Lease Transactions

The Company accounts for lease transactions as capital leases or operating leases, depending on the terms of the lease agreement. Machinery and equipment acquired under capital lease agreements are recorded as property, plant and equipment at cost and depreciated using the declining-balance method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under capital leases, net of accrued interest, as determined by the total lease payments in excess of the cost of the leased machinery and equipment. Accrued interest is amortized over the lease period using the effective interest rate method. Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. Rather, the related lease rentals are charged to expense when incurred.

Intangible Assets

Intangible assets, comprising industrial property rights and other intangible assets, are recorded at cost and amortized using the straight-line method over the following estimated useful lives.

	Estimated Useful Lives	
Industrial property rights	5 - 20	years
Other intangible assets	10	"

Derivative Financial Instruments

In accordance with the financial accounting standards in Korea, derivative financial instruments ("derivatives") are carried at fair value. Unrealized gains or losses on derivatives for trading or fair value hedging purposes are included in current operations, except for unrealized gains or losses on derivatives for cash flow hedging that are effective, which are recorded as a capital adjustment and included in current operations in the year when the underlying transactions have an effect on operations.

Discount on Debentures

Discounts on debentures, including debenture issuance costs, are amortized as additional interest expense over the repayment term of the debenture using the effective interest rate method.

Convertible Bonds

When convertible bonds are issued, the value attributable to the conversion rights is presented as a capital adjustment and the corresponding conversion right adjustment account is presented as a deduction from convertible bonds. When convertible bonds are converted, the convertible right is reduced by the corresponding adjustment account to the convertible right and the remainder is transferred to other capital surplus. The conversion right adjustment account is amortized over the redemption period of the convertible bonds using the effective interest rate method and charged to interest expense.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean Won at the rates in effect at the balance sheet date (₩ 1,200.4: US\$1 as of December 31, 2002 and ₩ 1,326.1: US\$1 as of December 31, 2001), and resulting translation gains or losses are recognized in current operations.

Accrued Severance Benefits

Employees and directors with more than one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date.

The Company made deposits to the National Pension Fund in accordance with the National Pension Fund Law. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying non-consolidated balance sheet are presented net of this deposit.

Accrued severance benefits are funded at approximately 70.6% as of December 31, 2002 and 73.1% as of December 31, 2001, through a group severance insurance plan, and are presented as a deduction from accrued severance benefits (see Note 14).

Warranty Reserve

The Company accrued warranty reserves for the estimated costs of future repairs and recalls, based on the experience and the expectation of future repairs. Estimated costs of product warranties amounting to ₩ 5,920,731 thousand was charged to current operations during the year ended December 31, 2002. The warranty reserve was recorded as part of long-term liabilities since the actual warranty expense is to be incurred over several years, the incurrence period of which cannot be readily and reasonably determined.

Effective July 1, 2002, The Company is insured against future claims that may be asserted under the Product Liability Act in Korea, which imposes the responsibility on a manufacturer or seller when a product is defective and causes injury or damage to a person or property. In addition, the Company provided a product liability allowance amounting ₩ 6,144,792 thousand, with respect to contingencies arising from product liability-related litigation, as of December 31, 2002.

Income Taxes

The Company recognizes deferred income taxes for anticipated future tax consequences resulting from temporary differences between amounts reported for financial reporting and income tax purposes. Deferred income tax assets and liabilities are computed on such temporary differences by applying enacted statutory tax rates applicable to the years when such differences are expected to reverse. Deferred income tax assets are recognized when it is more likely than not that such deferred income tax assets will be realized. The total income tax provision includes the current tax expense under applicable tax regulations, and the change in the balance of deferred income tax assets and liabilities during the year.

Tax credits for investments and development of technology and manpower, and other tax credits are recognized when the assets giving rise to such credits are placed in service. To the extent that such credits are not currently utilized, deferred income tax assets, subject to realizability as stated above, are recognized for the carry-forward amount.

The Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the assets to its estimated net realizable values.

Sale or Discounting of Accounts Receivable

The Company sells or discounts certain accounts or notes receivable to financial institutions and accounts for the transactions as a sale of the receivables if the rights and obligations relating to the receivables are substantially transferred to the buyers. The losses from the sale of the receivables are charged to current operations as incurred.

Restatement of Prior Years Financial Statements

In accordance to the notice received from the Securities and Futures Commission of Korea, the Company's financial statements as of and for the year ended December 31, 2001, presented herein for comparative purpose, were restated to reflect income from prior periods arising from the operations of offshore financial entities incorporated and controlled by the Company (see Note 24).

Impairment Loss

Assets other than marketable securities, investment securities, restructured receivables and assets with present value discounts are stated at cost. However, declines in fair value arising from obsolescence, physical damage or market value declines are recorded as impairment losses and included in current operations.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial and Supervisory Board. SKFAS No. 2 through No. 9 became effective for the Company on January 1, 2003, and the Company plans to adopt these statements in its financial statements for the year ending December 31, 2003. The most significant of these statements for the Company is SKFAS No. 7, Capitalization of Financing Costs, which may have a material impact on the Company's results of operations.

Definition of Cash and Cash Equivalents

The Company considers cash on hand, bank deposits and highly liquid marketable securities with original maturities of three months or less to be cash and cash equivalents.

3. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rates (%)	In Thousands of Won	
		Dec. 31, 2002	2002
Cash and cash equivalents:			
Passbook accounts and others	1.0 - 4.0	₩ 54,050,834	₩ 1,020,609
Foreign currency deposits	1.0	2,400,800	–
		56,451,634	1,020,609
Short-term financial instruments:			
Time deposits in Korean Won	4.3 - 4.9	9,800,000	4,800,000
Time deposits denominated in foreign currencies	0.4 - 1.7	33,500,763	30,367,690
		43,300,763	35,167,690
Long-term financial instruments:			
Key money deposit for checking accounts	–	24,500	24,500
		₩ 99,776,897	₩ 36,212,799

As of December 31, 2001, short-term financial instruments amounting ₩ 38,300,763 thousand, including ₩ 4,800,000 thousand of time deposits in Korean Won and long-term financial instruments amounting to ₩ 24,500 thousand, are pledged as collateral for guarantees for its affiliates and opening checking accounts, respectively. Withdrawal of these deposits is restricted (see Note 16).

4. Receivables

Receivable as of December 31, 2002 and 2001 comprise the following:

	In Thousands of Won					
	2002			2001		
	Receivable	Allowance for Doubtful Accounts	Net Balance	Receivable	Allowance for Doubtful Accounts	Net Balance
Trade receivables						
Accounts receivable	₩ 120,429,901	₩ 2,339,589	₩ 118,090,312	₩ 130,954,797	₩ 2,071,154	₩ 128,883,825
Notes receivable	70,636,074	734,494	69,901,580	34,467,010	172,335	34,294,675
	191,065,975	3,074,083	187,991,892	165,421,989	2,243,489	163,178,500
Long-term other						
accounts receivable	1,334,863	977,802	357,061	12,901,843	5,940,589	6,961,254
Other accounts receivable	36,035,206	431,991	35,603,215	16,712,723	208,606	16,504,117
	₩ 228,436,044	₩ 4,483,876	₩ 223,952,168	₩ 195,036,555	₩ 8,392,684	₩ 186,643,871

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

On September 30, 2002, the restructuring plan with respect to troubled receivables from Daewoo Motors, a customer that filed for court receivership under the Corporate Reorganization Act in Korea, was changed under the court's approval and agreement of related parties, including creditors. The schedule of repayment under the restructuring plan is as follows:

Type of Restructuring	Debtor	In Thousands of Won			Methods of Repayment
		Balance before Restructuring	Fair Value	Balance after Restructuring	
Securities of Debt-Equity Swap	Daewoo Motors	₩ 8,476,047	₩ –	₩ –	Acquisition of Daewoo Motor's common stock
	Daewoo Commercial Vehicle	63,861	3,065	3,065	Acquisition of Daewoo Commercial Vehicle's common stock
Beneficiary Certificate	GM-Daewoo Auto & Technology ("GM-DAT")	539,981	272,691	272,691	Cash dividends of preferred stock of GM-DAT and repayment
	GM-DAT, Incheon	967,841	–	–	Acquisition of GM-DAT, Incheon's stock
	Daewoo Bus	75,780	49,029	49,029	Promissory note of Daewoo Bus
Debt Transfer	GM-DAT	1,250,511	1,250,511	1,250,511	Repaid in cash
	Daewoo Commercial Vehicle	77,182	40,137	40,137	Repayment in nine years with a one-year grace period
	Daewoo Motors	234,175	–	–	Repayment in nine years with a one-year grace period
		₩ 11,685,378	₩ 1,615,433	₩ 1,615,433	

Balances after restructuring were calculated based on fair value at the restructuring date. In cases when there was no available information on fair value, balances after restructuring were calculated by discounting cash flows based on the schedule of repayment of the restructuring plan using the discount rate of 12.35% at the restructuring date.

The net book value of trade accounts receivable, notes receivable and long-term other accounts receivable from Daewoo Motors was zero as of the restructuring date. The difference between net book value and fair value of transferred assets was ₩ 1,615,433 thousand, which was reflected as current income for the year ended December 31, 2002.

5. Monetary Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2002 and 2001 are as follows:

	In Thousands				In Thousands of Won	
	2002		2001		2002	2001
Assets						
Cash and cash equivalents	USD	2,000	USD	–	₩ 2,400,800	₩ –
Short-term financial instruments	USD	27,908	USD	22,900	33,500,763	30,367,690
Trade accounts receivable	USD	26,061	USD	32,771	31,283,269	43,457,620
					₩ 67,184,832	₩ 73,825,310
Liabilities						
Trade accounts payable	USD	47,198	USD	36,435	₩ 56,656,633	₩ 48,317,107
	GBP	29	GBP	14	55,032	26,139
	AUD	704	AUD	209	478,439	141,704
	NZD	311	NZD	99	196,648	54,694
	EUR	690	EUR	–	868,024	–
					58,254,776	48,539,644
Short-term borrowings	USD	75,513	USD	38,615	90,645,970	51,207,224
	JPY	28,895	JPY	78,672	292,669	794,115
	DEM	–	DEM	659	–	395,106
	EUR	920	EUR	800	1,144,198	937,521
					92,082,837	53,333,966
Long-term borrowings (*)	USD	44,172	USD	35,175	53,023,588	46,646,124
Long-term lease payables (*)	USD	1,658	USD	4,621	1,990,217	6,128,320
					₩ 205,351,418	₩ 154,648,054

(*) Current maturities of long-term debt are included.

Non-monetary investments in foreign affiliates were not presented above.

6. Short-Term and Long-Term Loans

Short-term and long-term loans as of December 31, 2002 and 2001 comprise the following:

	Annual Interest Rates (%)	In Thousands of Won	
		2002	2001
Short-term loans			
Housing loans to employees	0.0-3.0	₩ 517,394	₩ 604,225
Less: Discount for present value		(22,883)	(29,901)
		₩ 494,511	₩ 574,324
Long-term loans			
Housing loans to employees	0.0-3.0	₩ 529,748	₩ 1,547,299
Less: Discount for present value		(111,029)	(229,535)
		₩ 418,719	₩ 1,317,764

Housing loans have been restated at present value, which were calculated using the interest rate of 9.34%.

7. Inventories

Inventories as of December 31, 2002 and 2001 comprise the following:

	In Thousands of Won	
	2002	2001
Merchandise	₩ 10,165,412	₩ 11,388,886
Finished goods	67,684,531	72,663,322
Work-in-process	6,080,864	5,113,022
Raw materials	8,197,849	9,660,763
Supplies	3,832,130	3,453,350
Materials in-transit	30,205,916	43,003,347
Land for construction contracts (*)	20,059,753	63,482,508
	₩ 146,226,455	₩ 208,765,198

(*) Land for construction contracts represents the cost of lands not transferred to cumulative construction contract costs recognized using the percentage-of-completion method.
As of December 31 2002, inventories are insured against fire and other casualty losses up to ₩ 103,780 million.

8. Marketable Securities and Investment Securities

Details of entrusted assets to investment service companies which are stated at fair value, and valuation gains and losses reported in current operations are as follows:

	Shares Owned by the Company	Ownership Ratio (%)	In Thousands of Won		
			Acquisition Cost	Net Asset Value	Differences
Debt and equity securities	(*)	–	₩ 2,000,000	₩ 1,855,209	₩ 144,791

(*) Equity securities of 78,760 shares issued by 45 companies, including Chohung Bank.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Investment securities as of December 31, 2002 and 2001 are as follows:

	In Thousands of Won									
	Shares Owned by the Company		Ownership Ratio (%)		Acquisition Cost		Market or Net Asset Value		Carrying Book Value	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Investment in non-marketable equity securities:										
The Korea Economic Daily	55,150	55,150	0.51	0.51	297,135	297,135	208,509	291,230	297,135	297,135
Shinsegi Telecom (*5)	-	175,297	-	0.17	-	876,485	-	806,277	-	876,485
Wireless Data Communication	5,000	50,000	0.60	0.60	800,000	800,000	137,184	85,837	137,184	137,184
Jasperauto Corp.	106,255	106,255	3.43	3.43	200,000	200,000	58,756	52,586	58,756	62,668
K-Zone International co., Ltd.	6,000	6,000	2.44	2.44	200,000	200,000	21,829	15,651	200,000	200,000
Power Comm	100,000	100,000	0.07	0.07	3,500,000	3,500,000	552,797	535,350	3,500,000	3,500,000
Wasol Co., Ltd	10,000	10,000	4.17	4.17	200,000	200,000	33,167	200,000	200,000	200,000
MK2000-2 Tube Information and Telecommunication Partners I, L.P	10	10	6.67	6.67	1,000,000	1,000,000	1,078,828	1,505,380	1,000,000	1,000,000
RUBBERNETWORK.COM	-	-	5.57	5.57	3,530,181	2,404,225	126,161	2,404,225	3,530,181	2,404,225
Korea Digital Satellite Broadcasting (*8)	300,000	300,000	0.50	0.50	1,650,000	1,650,000	1,180,928	162,032	1,180,928	1,650,000
Cash Office	-	-	-	-	17,891	17,891	17,891	17,891	17,891	17,891
Stock Market Stabilization Fund	-	-	-	-	353,083	812,885	484,708	867,573	484,708	867,573
Daewoo Motors (*3)	-	-	-	-	324,785	-	324,785	-	324,785	-
KT ICOM Co., Ltd.	-	122,260	-	0.12	-	2,200,680	-	2,185,434	-	2,200,680
Others (*4)	-	-	-	-	546,078	551,078	546,078	551,078	546,078	551,078
					12,619,153	14,710,379	4,771,621	9,680,544	11,477,646	13,964,919
Investments in marketable equity securities:										
KT Freetel & M.com	231,752	231,752	0.13	0.17	1,791,536	1,791,536	6,535,406	9,918,986	6,535,406	9,918,986
SK Telecom Co., Ltd. (*5)	9,984	-	0.01	-	876,258	-	2,286,336	-	2,286,336	-
					2,667,794	1,791,536	8,821,742	9,918,986	8,821,742	9,918,986
Investments in subsidiaries carried at equity (*2)										
Korea Storage Battery, Ltd.	2,848,685	2,848,685	31.13	31.13	12,229,979	12,229,979	15,795,593	17,824,088	15,795,593	17,824,088
Daehwa Eng' & Machinery Co., Ltd. (*9)	380,000	380,000	95.00	95.00	1,900,000	1,900,000	1,281,353	-	1,281,353	-
ASA Co., Ltd.	2,200,000	2,200,000	73.33	73.33	11,000,000	11,000,000	6,523,436	7,398,187	6,523,436	7,398,187
EmFrontier Inc	2,000,000	2,000,000	50.00	50.00	1,000,000	1,000,000	1,156,604	1,609,190	1,156,604	1,609,190
Hankook Tire America Corp.	1,600	1,600	100.00	100.00	8,737,823	8,737,823	7,638,427	12,010,361	7,638,427	12,010,361
Hankook Tyre U.K. Ltd.	25,000	25,000	100.00	100.00	30,649	30,649	-	-	-	-
Hankook Tire China Co., Ltd.	(*1)	(*1)	90.02	90.02	66,762,417	66,762,417	66,490,153	73,315,205	66,490,153	73,315,205
Jiansu Hankook Tire Co., Ltd.	(*1)	(*1)	98.92	98.49	89,560,336	58,858,178	66,709,606	47,745,313	66,709,606	47,745,313
Hankook Tire Netherlands B.V.	(*1)	(*1)	100.00	100.00	1,738,031	1,104,167	-	-	-	-
Hankook Tire Canada Corp.	50,000	50,000	100.00	100.00	30,950	30,950	-	-	-	-
Hankook Tire Japan Corp.	400	400	100.00	100.00	165,464	165,464	-	-	-	-
Hankook Reifen Deutschland GmbH	(*1)	(*1)	100.00	100.00	126,995	126,995	-	-	-	-
Hankook Tire France SARL (*6)	(*1)	(*1)	100.00	100.00	258,840	258,840	-	-	-	-
Ocean Capital Investment (L) Limited (*7)	(*1)	(*1)	100.00	100.00	-	-	8,871,606	8,713,219	8,871,606	8,713,219
					193,541,484	162,205,462	174,466,778	168,615,563	174,466,778	168,615,563
Investments in debt securities held-to-maturity										
Subordinated bank debentures	-	-	-	-	1,496,680	1,496,680	1,497,428	1,496,931	1,497,428	1,496,931
Government and public bonds	-	-	-	-	524,350	15,275	524,350	15,275	524,350	15,275
					2,021,030	1,511,955	2,021,778	1,512,206	2,021,778	1,512,206
					₩ 210,849,461	₩ 180,219,332	₩ 190,081,919	₩ 189,727,299	₩ 196,787,944	₩ 194,011,674

- (*1) No shares have been issued in accordance with the local laws or regulations.
- (*2) The equity method of accounting is applied based on the affiliates' most recent financial information available, some of which have not been audited or reviewed.
- (*3) On September 30, 2002, the restructuring plan for the troubled receivables from Daewoo Motors, a customer that had filed for a court receivership under the Corporate Reorganization Act in Korea, was modified under the court's approval and agreement of interested groups, including creditors. Under the modified restructuring plan, the Company acquired equity securities and beneficiary certificates, of which fair value amounted to ₩ 3,065 thousand and ₩ 321,720 thousand, respectively (see Note 4).
- (*4) Certain investments in non-marketable equity securities in which the Company holds 20% or more interest in the investees have been recorded at cost if total assets of each investee is less than ₩ 7 billion, and differences between the value of investments using the equity and cost accounting method are not significant.
- (*5) Due to the merger between SK Telecom Co., Ltd. and Shinsegi Telecom in 2002, the equity securities of Shinsegi Telecom held by the Company in 2001 was converted to those of SK Telecom.
- (*6) Due to the accumulated deficit, the net book value of the investments in the securities of these investees were fully written off, and additional estimated losses amounting to ₩ 1,196,892 thousand were accrued with respect to the guarantees provided by the Company for the investees (see Note 15).
- (*7) In accordance to the notice received from the Securities and Futures Commission of Korea, investment securities were restated using the equity method of accounting (see Note 24).
- (*8) As of December 31, 2002, 9,000 shares of Korea Digital Satellite Broadcasting provided to Korea Digital Satellite Broadcasting were pledged as collateral related to the Company's agency contracts.
- (*9) As of December 31, 2001, the equity method of accounting had been suspended due to accumulated losses. However, in 2002, the equity method of accounting was resumed for the investee under the assumption that the equity method has not been suspended for the year ended December 31, 2001, since the Company's cumulative proportionate net income of the investee exceeds its cumulative proportionate net losses not recognized during the period the equity method was suspended.

Details of the amortization of the differences between the purchase costs and net book value of investments during the years ended December 31, 2002 and 2001 are as follows:

In Thousands of Won							
2002							
Equity Method Investees	Beginning Balance	Increase (Decrease)	Amortization	Ending Balance			
Korea Storage Battery, Ltd.	₩ 202,633	₩ –	₩ 29,350	₩ 173,283			
Daehwa Eng' & Machinery Co., Ltd.	(82,666)	–	(21,001)	(61,665)			
ASA Co., Ltd.	453,632	–	75,605	378,027			
Jiansu Hankook Tire Co., Ltd.	(1,017,237)	–	(122,425)	(894,812)			
Total	₩ (443,638)	₩ –	₩ (38,471)	₩ (405,167)			

In Thousands of Won							
2001							
Equity Method Investees	Beginning Balance	Increase (Decrease)	Amortization	Ending Balance			
Korea Storage Battery, Ltd.	₩ 234,985	₩ –	₩ 32,352	₩ 202,633			
Daehwa Eng' & Machinery Co., Ltd.	(103,667)	–	(21,001)	(82,666)			
ASA Co., Ltd.	529,237	–	75,605	453,632			
Jiansu Hankook Tire Co., Ltd.	438,457	(1,578,119)	(122,425)	(1,017,237)			
Total	₩ 1,099,012	₩ (1,578,119)	₩ (35,469)	₩ (443,638)			

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Details of the elimination of unrealized profits arising from intercompany transactions during the years ended December 31, 2002 and 2001 are as follows:

Equity Method Investees	In Thousands of Won			
	2002			
	Current Assets	Long-Lived Assets	Total	
Korea Storage Battery, Ltd.	₩ 291,325	₩ –	₩	291,325
Daehwa Eng' & Machinery Co., Ltd.	–	370,554		370,554
ASA Co., Ltd.	70,129	–		70,129
EmFrontier Inc.	–	947,028		947,028
Hankook Tire America Corp.	3,603,117	–		3,603,117
Hankook Tire China Co., Ltd.	(40,020)	–		(40,020)
Jiansu Hankook Tire Co., Ltd.	484,340	1,226,845		1,711,185
Total	₩ 4,408,891	₩ 2,544,427	₩	6,953,318

Equity Method Investees	In Thousands of Won			
	2001			
	Current Assets	Long-Lived Assets	Total	
Korea Storage Battery, Ltd.	₩ 10,698	₩ –	₩	10,698
ASA Co., Ltd.	(52,285)	–		(52,285)
Hankook Tire America Corp.	2,455,994	–		2,455,994
Hankook Tire China Co., Ltd.	236,921	–		236,921
Jiansu Hankook Tire Co., Ltd.	484,906	–		484,906
Total	₩ 3,136,234	₩ –	₩	3,136,234

The above details represent the effects on the net income for the years ended December 31, 2002 and 2001, respectively, excluding the amount of unrealized profits for the investees on which the application of the equity method of accounting has been suspended due to accumulated deficits.

Details of the change in investments in equity method investees during the years ended December 31, 2002 and 2001 are as follows:

Equity Method Investees	In Thousands of Won					
	2002					
	Beginning Balance	Acquisition	Gains(Losses) on Valuation	Others (*1)	Ending Balance	
Korea Storage Battery, Ltd.	₩ 17,824,088	₩ –	₩ (1,907,466)	₩ (121,029)	₩	15,795,593
Daehwa Eng' & Machinery Co., Ltd.	–	–	1,281,353	–		1,281,353
ASA Co., Ltd.	7,398,187	–	(907,424)	32,673		6,523,436
EmFrontier Inc.	1,609,190	–	(517,959)	65,373		1,156,604
Hankook Tire America Corp. (*3)	12,010,361	–	(1,928,241)	(2,443,693)		7,638,427
Hankook Tyre U.K. Ltd. (*2)	–	–	–	–		–
Hankook Tire China Co., Ltd.	73,315,205	–	1,279,858	(8,104,910)		66,490,153
Jiansu Hankook Tire Co., Ltd.	47,745,313	30,702,158	(2,818,032)	(8,919,833)		66,709,606
Hankook Tire Netherlands B.V. (*3)(*4)	–	633,864	(56,127)	(577,737)		–
Hankook Tire Canada Corp. (*2)(*3)	–	–	–	–		–
Hankook Tire Japan Corp. (*2)(*3)	–	–	–	–		–
Hankook Reifen Deutschland GmbH (*2)(*3)	–	–	–	–		–
Hankook Tire France SARL (*3)(*4)	–	–	(367,507)	367,507		–
Ocean Capital Investment (L) Limited (*3)	8,713,219	–	585,203	(426,816)		8,871,606
Total	₩ 168,615,563	₩ 31,336,022	₩ (5,356,342)	₩ (20,128,465)	₩	174,466,778

(*1) "Others" represent the changes in investment securities caused by foreign currency translation and changes in retained earnings of the investees.

(*2) The equity method of accounting has been suspended due to accumulated deficits.

(*3) The equity method of accounting is applied based on the affiliates' most recent available financial information, which have not been audited or reviewed.

(*4) The equity method of accounting has been suspended due to accumulated losses, and additional estimated losses were accrued with respect to the guarantees provided by the Company for the investees.

Equity Method Investees	In Thousands of Won					
	2001					
	Beginning Balance	Acquisition	Gains(Losses) on Valuation	Others (*1)	Ending Balance	
Korea Storage Battery, Ltd.	₩ 18,730,028	₩ –	₩ (763,131)	₩ (142,809)	₩ 17,824,088	
Daehwa Eng' & Machinery Co., Ltd.	–	–	–	–	–	
ASA Co., Ltd.	7,750,330	–	(352,143)	–	7,398,187	
EmFrontier Inc.	1,000,000	–	609,190	–	1,609,190	
Hankook Tire America Corp.	5,819,038	6,397,500	(959,555)	753,378	12,010,361	
Hankook Tyre U.K. Ltd. (*2)	–	–	–	–	–	
Hankook Tire China Co., Ltd.	63,552,100	6,006,850	(903,892)	4,660,147	73,315,205	
Jiansu Hankook Tire Co., Ltd.	37,720,297	10,700,528	(3,199,349)	2,523,837	47,745,313	
Hankook Tire Netherlands B.V. (*2)(*4)	–	–	(577,737)	577,737	–	
Hankook Tire Canada Corp. (*2)	–	–	–	–	–	
Hankook Tire Japan Corp. (*2)	–	–	–	–	–	
Hankook Reifen Deutschland GmbH (*2)	–	–	–	–	–	
Hankook Tire France SARL (*2)(*4)	–	–	(829,383)	829,383	–	
Ocean Capital Investment (L) Limited	8,064,546	–	221,856	426,817	8,713,219	
Total	₩ 142,636,339	₩ 23,104,878	₩ (6,754,144)	₩ 9,628,490	₩ 168,615,563	

(*1) "Others" represent the changes in investment securities caused by foreign currency translation and changes in retained earnings of the investees.

(*2) The equity method of accounting has been suspended due to accumulated deficits.

(*3) The equity method of accounting is applied based on the affiliates' most recent available financial information, which have not been audited or reviewed.

(*4) The equity method of accounting has been suspended due to accumulated losses, and additional estimated losses were accrued with respect to the guarantees provided by the Company for the investees.

Details of Company's proportionate net losses not recognized since the discontinuance of the equity method of accounting due to accumulated deficits of the investees and allowance for estimated contingent losses arising from guaranteed obligation of the investees are as follows:

Equity Method Investees	In Thousands of Won					
	2002			2001		
	Unrecognized Losses (*)	Contingency Loss Reserve	Net Unrecognized Losses	Unrecognized Losses (*)	Contingency Loss Reserve	Net Unrecognized Losses
Hankook Tyre U.K. Ltd.	₩ (1,733,505)	₩ –	₩ (1,733,505)	₩ (1,217,123)	₩ –	₩ (1,217,123)
Hankook Tire Netherlands B.V.	(2,818,046)	–	(2,818,046)	(6,132,628)	577,737	(5,554,891)
Hankook Tire Canada Corp.	(108,411)	–	(108,411)	(564,483)	–	(564,483)
Hankook Tire Japan Corp.	(105,170)	–	(105,170)	(1,104,695)	–	(1,104,695)
Hankook Reifen Deutschland GmbH	(974,155)	–	(974,155)	(850,237)	–	(850,237)
Hankook Tire France SARL	(5,318,381)	1,196,892	(4,121,489)	(4,932,985)	829,382	(4,103,603)
Total	₩ (11,057,668)	₩ 1,196,892	₩ (9,860,776)	₩ (14,802,151)	₩ 1,407,119	₩ (13,395,032)

(*) The amounts represent unrecognized losses after reflecting unrealized profits.

Declines in the Company's proportionate ownership of the underlying book value of the investee which are anticipated to be permanent and were recorded as valuation losses amounted to ₩ 472,984 thousand for the year ended December 31, 2002.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

9. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2002 and 2001 comprise the following:

	In Thousands of Won					
	2002			2001		
	Acquisition Cost	Accumulated Depreciation	Book Value	Acquisition Cost	Accumulated Depreciation	Book Value
Land	₩ 273,391,132	₩ –	₩ 273,391,132	₩ 317,033,431	₩ –	₩ 317,033,431
Buildings	402,201,695	38,373,748	363,827,947	403,993,225	26,535,363	377,457,862
Structures	15,997,432	3,610,548	12,386,884	15,200,059	3,020,474	12,179,585
Machinery and equipment	569,533,225	320,464,726	249,068,499	453,577,835	221,285,090	232,292,745
Vehicles	9,573,158	7,343,351	2,229,807	8,958,803	6,499,046	2,459,757
Tools, furniture and fixtures	225,934,141	161,716,066	64,218,075	194,099,075	146,124,572	47,974,503
Machinery in-transit	26,921,044	–	26,921,044	18,966,680	–	18,966,680
Construction in-progress	114,740,958	–	114,740,958	192,464,258	–	192,464,258
	₩ 1,638,292,785	₩ 531,508,439	₩ 1,106,784,346	₩ 1,604,293,366	₩ 403,464,545	₩ 1,200,828,821

As of December 31, 2002 and 2001, the appraised tax basis of land, as determined by the local government of Korea for property tax assessment purposes, amounted to approximately ₩ 248,308 million and ₩ 284,882 million, respectively.

As of December 31, 2002, a substantial portion of the Company's land, buildings and machinery pledged as collateral for long-term and short-term debt obligations are summarized as follows (see Notes 11 and 12):

Creditor	Pledged Assets	In Thousands of Won	
		Pledged Amount	
Woori Bank	Land, Buildings and Machinery	KRW	104,911,216
		US\$	43,200
The Korea Development Bank	Land, Buildings and Machinery	KRW	122,000,000
		US\$	110,000
Kookmin Bank	Land, Buildings and Machinery	KRW	22,988,000
		US\$	8,400
Chohung Bank	Land, Buildings and Machinery	KRW	1,000,000
Korea Exchange Bank	Land, Buildings	US\$	50,000,000
	Total	KRW	300,899,216
		US\$	161,600

10. Insured Assets

As of December 31, 2002, property, plant and equipment are insured against fire and other casualty losses up to approximately ₩ 1,958,211 million.

Vehicles are insured by a general and liability insurance policy. In addition, the Company has effected the directors' and officers' liability insurance up to ₩ 5,000 million.

11. Short-Term Borrowings

Short-term borrowings as of December 31, 2002 and 2001 comprise the following:

	Lender	Annual Interest Rate (%)		In Thousands of Won	
		Dec. 31, 2002	2002	2001	
Export financing	Woori Bank	–	₩ –	₩ 19,113,300	
General loan	Korea Development Bank, etc.	5.79	10,000,000	87,179,934	
"	Arab Bank, etc.	5.8 - 6.0	11,000,000	31,000,000	
USANCE	Woori Bank, etc.	2.29	92,096,107	53,333,967	
			₩ 113,096,107	₩ 190,627,201	

Current maturities of long-term debt as of December 31, 2002 and 2001 comprise the following:

	In Thousands of Won	
	2002	2001
Debentures	₩ 130,110,000	₩ 116,200,000
Convertible bond	–	1,890,000
Long-term borrowings	61,739,823	32,289,106
Long-term other accounts payable	1,990,217	3,929,697
	193,840,040	154,308,803
Add: Premiums on debentures	14,669	–
Less: Discounts on debentures	(505,878)	(758,156)
Conversion right adjustment	–	(19,416)
	₩ 193,348,831	₩ 153,531,231

Repayment of the above short-term borrowings is guaranteed by several banks. In addition, a substantial portion of Company's property, plant and equipment are pledged as collateral for the repayment of the above short-term borrowings (see Notes 9 and 16).

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

12. Long-Term Debt

Long-term debt as of December 31, 2002 and 2001 comprises the following:

Debentures

	Maturity Date	Annual Interest Rates (%)		In Thousands of Won		Guarantor
		Dec. 31, 2002		2002	2001	
The 61 st debenture payable	Jan. 22, 2002	–	₩	–	₩ 10,000,000	Non-guaranteed
The 63 rd debenture payable	Apr. 19, 2002	–		–	30,000,000	"
The 64 th debenture payable	May 11, 2002	–		–	30,000,000	"
The 65 th debenture payable	Sept. 19, 2002	–		–	46,200,000	"
The 66 th debenture payable	Jan. 17, 2003	8.00		35,000,000	35,000,000	"
The 67 th debenture payable	Feb. 21, 2003	9.00		30,000,000	30,000,000	"
The 68 th debenture payable	Jul. 18, 2003	8.00		30,000,000	30,000,000	"
The 69 th debenture payable	Sept. 28, 2003	8.00		30,000,000	30,000,000	"
The 70 th debenture payable	Jan. 8, 2004	7.00		30,000,000	30,000,000	"
The 71 st debenture payable	Feb. 5, 2004	6.00		30,000,000	30,000,000	"
The 72 nd debenture payable	Jul. 13, 2004	6.00		30,000,000	30,000,000	"
The 73 rd debenture payable	Oct. 25, 2004	5.00		30,000,000	30,000,000	"
The 74 th debenture payable	Feb. 25, 2005	6.00		30,000,000	–	"
The 75 th debenture payable	Feb. 28, 2003	1.35		10,000,000	–	"
The 76 th debenture payable	Apr. 28, 2005	6.00		30,000,000	–	"
				315,000,000	361,200,000	
Less: Treasury bonds				(4,890,000)	(4,890,000)	
Current maturities				(130,110,000)	(116,200,000)	
Discounts on debentures				(3,441,555)	(5,953,317)	
Add: Premium on debentures				–	41,377	
				₩ 176,558,445	₩ 234,198,060	

The Company holds ₩ 4,890,000 thousand of the 68th debenture in treasury as of December 31, 2002, and intends to either reissue or extinguish these treasury bonds in the future.

Convertible Bonds (CB)

	Maturity Date	Annual Interest Rates (%)		In Thousands of Won		Guarantor
		Dec. 31, 2002		2002	2001	
The 52 nd CB in Won Currency	'97. 4. 19 - '02. 12. 31	–	₩	–	₩ 1,890,000	Non-guaranteed
The 54 th CB in Won Currency	'97. 12. 5 - '02. 12. 31	–		–	20,000,000	Non-guaranteed
				–	21,890,000	
Less: Treasury CB				–	(20,000,000)	
Current maturities				–	(1,890,000)	
				₩	₩	–

During 2002, the 52nd convertible bond was converted to 1,129,032 shares of common stock (see Note 1).

Long-Term Borrowings

Lender	Purpose	Annual Interest Rates (%)	In Thousands of Won		
		Dec. 31, 2002	2002	2001	
Won currency loans					
Woori Bank	Industrial facility loans	5.5	₩ 1,200,000	₩ 1,700,000	
The Korea Development Bank	General facility loans, etc.	5.7 - 6.3	50,000,000	77,732,000	
KDB Capital	Information improvement loans	6.5	198,960	331,600	
			51,398,960	79,763,600	
	Less: Current maturities		(15,632,640)	(13,718,640)	
			35,766,320	66,044,960	
Foreign currency loans					
The Korea Development Bank	Machinery facility loans	4.94	1,261,380	2,786,932	
The Korea Development Bank	General facility loans	—	—	—	
KEXIM Bank	Foreign direct investment	2.41-2.80	10,198,598	19,867,962	
Woori Bank	Foreign facility loans	2.81-4.45	36,617,002	1,861,844	
Korea International Merchant Bank	General facility loans	—	—	—	
Koram Bank and others	Foreign direct investment	3.30	4,946,608	22,129,387	
			53,023,588	46,646,125	
	Less: Current maturities		(46,107,183)	(18,570,466)	
			6,916,405	28,075,659	
			₩ 42,682,725	₩ 94,120,619	

The annual maturities in aggregate of long-term debt outstanding as of December 31, 2002 are as follows:

For the year ending December 31,	In Thousands of Won			
	Debentures	Won Currency Debt	Foreign Currency Debt	Total
2004	₩ 120,000,000	₩ 20,566,320	₩ 6,916,405	₩ 147,482,725
2005	60,000,000	7,700,000	-	67,700,000
2006	-	5,000,000	-	5,000,000
2007	-	2,500,000	-	2,500,000
	₩ 180,000,000	₩ 35,766,320	₩ 6,916,405	₩ 222,682,725

As of December 31, 2002, a substantial portion of the Company's property, plant and equipment are pledged as collateral for the above long-term debt. Repayments of the above long-term are guaranteed by several banks (see Notes 9 and 16).

13. Leases

As of December 31, 2002 and 2001, the Company has entered into lease agreements with several leasing companies, which are recognized as capital leases. These lease agreements are summarized as follows:

Accounts	In Thousands of Won			
	Acquisition Cost		Depreciation Expense	
	2002	2001	2002	2001
Machinery and equipment	₩ 10,075,072	₩ 10,075,072	₩ 380,808	₩ 554,306

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Scheduled future lease payments in aggregate under these capital lease arrangements as of December 31, 2002 and 2001 are as follows:

For the year ending December 31,	In Thousands of Won					
	Lease Payment		Interest		Net Lease Liability	
	2002	2001	2002	2001	2002	2001
2002	₩ -	₩ 4,253,107	₩ -	₩ 323,410	₩ -	₩ 3,929,697
2003	1,990,217	2,270,701	-	72,078	1,990,217	2,198,623
	₩ 1,990,217	₩ 6,523,808	₩ -	₩ 395,488	1,990,217	6,128,320
			Less: Current maturities		(1,990,217)	(3,929,697)
					₩ -	₩ 2,198,623

14. Accrued Severance Benefits

Accrued severance benefits as of December 31, 2002 and 2001 comprise the following:

	In Thousands of Won	
	2002	2001
Balance at the beginning of the year	₩ 85,293,387	₩ 102,244,402
Actual payments	(33,629,981)	(32,974,955)
Provision for severance benefits	24,695,232	16,023,940
	76,358,638	85,293,387
Less: Cumulative deposits to the National Pension Fund	(3,856,013)	(5,306,724)
Severance insurance deposits	(53,926,681)	(62,342,438)
Balance at the end of the year	₩ 18,575,944	₩ 17,644,225

15. Long-Term Other Payables

Details of long-term other payables as of December 31, 2002 and 2001 are as follows (see Note 2):

	In Thousands of Won	
	2002	2001
Product liability reserve	₩ 6,144,792	₩ 663,050
Warranty reserve	5,920,731	-
Contingency loss reserve	1,196,892	1,407,121
Others	1,231,975	331,525
	₩ 14,494,390	₩ 2,401,696

16. Commitments and Contingencies

As of December 31, 2002 and 2001, the Company has provided guarantees amounting to ₩ 233,037 million (US\$194,133 thousand) ₩ 266,932 million (US\$201,291 thousand), respectively, with respect to financing by its overseas subsidiaries. Such guarantees are as follows:

Subsidiaries	In Millions of Won	
Jiangsu Hankook Tire Co., Ltd.	₩	101,114
Hankook Tire China Co., Ltd.		71,672
Hankook Tire America Corp.		16,506
Hankook Tire Netherlands B.V.		15,176
Hankook Reifen Deutschland GmbH		12,529
Others		16,040
2002 Total	₩	233,037
2001 Total	₩	266,932

As of December 31, 2002, short-term financial instruments amounting to ₩ 38,300,763 thousand are subject to withdrawal restrictions in relation to the guarantee for the repayment of borrowings by Hanta M&B, an affiliated company.

As of December 31, 2002, the Company has entered into purchase card agreements with two banks, including Woori Bank, up to an aggregate amount of ₩ 130,000 million, which became effective since July 16, 2001.

The Company has obtained guarantees for its short-term and long-term borrowings from several banks. As of December 31, 2002, the aggregate amount of guarantees outstanding amounts to ₩ 10,807 million, equivalent to US\$9,003 thousand, and the Company has provided several blank checks and promissory notes as collateral for the repayment of loans and guarantees. The Company is taking a legal procedure to render as void a missing promissory note.

The Company has entered into notes-guaranteed borrowing agreements with six financial institutions, including Dong-Yang Investment Bank. However, the Company has not financed any borrowing related to the agreements as of December 31, 2002.

The Company has entered into bank overdraft agreements with several banks amounting to ₩ 37,100 million as of December 31, 2002. The Company has also entered into agreements with various financial institutions to discount notes up to ₩ 33,900 million in aggregate, and to discount trade accounts receivable denominated in foreign currency up to an aggregate amount of US\$386,000 thousand and ₩ 50,000 million. In addition, as of December 31, 2002, the Company has entered into agreements on short-term borrowings in foreign trade with three financial institutions, including Woori Bank, up to an aggregate amount of ₩ 145,000 million and US\$5,000 thousand, and entered into agreements with five financial institutions, including Industrial Bank of Korea, to provide guarantees for the payment of imported goods up to ₩ 30,000 million and US\$156,355 thousand.

The Company is contingently liable for the outstanding balance of trade accounts receivable discounted or assigned to financial institutions amounting to ₩ 29,911,765 thousand, equivalent to US\$249,843 thousand, and there is no notes receivable discounted or assigned outstanding as of December 31, 2002.

As of December 31, 2002, the Company has entered into agreements to purchase raw rubber materials with several suppliers, which are usually renewed annually. Also, as of December 31, 2002, the Company has entered into a long-term contract with EmFrontier Inc., one of its affiliated companies, to provide maintenance service of the information system.

As of December 31, 2002, the Company has entered into technical assistance agreements with Jiangsu Hankook Tire Co., Ltd. and Hankook Tire China Co., Ltd., affiliated companies. In accordance with the agreements, the Company receives 2.5% of total revenue arising from radial tire sales of Jiangsu Hankook Tire Co., Ltd., and 2.5% and 1% of total revenue arising from tire and tube sales of Hankook Tire China Co., Ltd., respectively, for five years starting from the contract date.

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The Company has entered into forward contracts to exchange different currencies on specified dates at a specified price.

A summary of forward contracts outstanding as of December 31, 2002 is as follows:

In Thousands of Won								
Counterparty	Bought		Sold		Settlement Rate	Settlement Date	Unrealized Valuation Gain	Capital Adjustment
Citi Bank	US\$	2,513	EUR	2,500	1.0053	2003.1.14	₩ -	₩ (124,721)
"	US\$	2,510	EUR	2,500	1.0038	2003.2.14	-	(124,510)
"	JPY	24,688	US\$	211	117.27	2003.1.14		(2,544)
"	KRW	12,594,000	US\$	10,000	1259.40	2003.1.20	715,821	-
"	KRW	12,117,000	US\$	10,000	1211.70	2003.3.17	177,988	-
"	KRW	8,436,439	US\$	6,943	1215.10	2003.6.30	73,916	-
"	KRW	1,172,572	US\$	965	1214.10	2003.6.30	10,274	-
Korea Development Bank	KRW	3,073,750	US\$	2,500	1229.50	2003.1.17	-	105,298
Koram Bank	KRW	2,391,880	EUR	2,000	1195.94	2003.1.24	-	(94,317)
							₩ 977,999	₩ (240,794)

In 2002, the Company recorded realized gains and losses amounting to ₩ 6,699,879 thousand and ₩ 2,549,969 thousand, respectively, and also recorded ₩ 105,298 thousand of unrealized gains and ₩ 346,092 thousand losses on derivatives for cash flow hedging that is effective, as capital adjustments as of December 31, 2002.

The Company is named as a defendant in various legal actions arising from normal business matters, including product liability. The Company believes that the outcome of these matters is uncertain. The Company provided a product liability allowance with respect to the litigation as of December 31, 2002 (see Notes 2 and 15).

The Company is named as a defendant in legal actions filed at Tarrant County Court, Texas in the United States of America, with regard to entering into an agreement for a US\$28 million Floating Rate Note on December 1998. The Company believes that the outcome of these matters is uncertain. The ultimate effect of these uncertainties on the financial position of the Company as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying non-consolidated financial statements related to such uncertainties.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The Company may be either directly or indirectly affected by these generally unstable economic conditions and the reform program described above. The accompanying non-consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Company. Actual results may differ materially from management's current assessment.

17. Revaluation Reserve

In accordance with the Asset Revaluation Law, the Company elected to revalue a substantial portion of its property, plant and equipment on January 1, 1981, January 1, 1998 and July 1, 2000, respectively. Upon the revaluation, the Company recognized revaluation increments amounting to ₩ 574,589,549 thousand and recorded revaluation surplus amounting to ₩ 456,473,224 thousand, net of asset revaluation tax, as other capital surplus.

18. Retained Earnings

Retained earnings as of December 31, 2002 and 2001 comprise the following:

	In Thousands of Won	
	2002	2001
Legal reserve	₩ 27,260,000	₩ 19,260,000
Reserve for improvement of financial structure	19,320,000	19,320,000
Voluntary reserve	232,512,667	189,989,333
Unappropriated retained earnings	24,917,107	17,034,317
	₩ 304,009,774	₩ 245,603,650

Legal Reserve

The Commercial Code of the Republic of Korea requires the Company to appropriate a portion of retained earnings as a legal reserve in an amount equal to a minimum of 10% of its cash dividends, until such reserve equals 50% of its capital stock. The reserve is not available for the payment of dividends, but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

Reserve for Business Rationalization

Pursuant to the Regulation of Tax Reduction and Exemption Act ("RTREA"), the Company appropriated a reserve for business rationalization for an amount equal to the tax reduction arising under the RTREA. However, in accordance with the revision of the RTREA in 2002, such restriction for appropriation of the reserve is not required any more. Accordingly, these were transferred to voluntary reserve in 2002.

Reserve for Improvement of Financial Structure

In accordance with the provisions of the Financial Control Regulations for the companies listed on the Korea Stock Exchange, the Company is required to appropriate, as a reserve for the improvement of financial structure, an amount equal to a minimum of 10% of its net income, plus at least 50% of the net gain from the disposal of fixed assets after deducting related taxes, until equity is equal to 30% of total assets. This reserve is not available for the payment of dividends but may be transferred to capital stock through an appropriate resolution by the Company's Board of Directors or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders. However, the Company is not required to appropriate the reserve since the equity of the Company is more than 30% of total assets as of December 31, 2001.

Voluntary Reserve

The Company appropriates a certain portion of retained earnings pursuant to a shareholders' resolution, as a voluntary reserve. This reserve may be reversed and transferred to unappropriated retained earnings by the resolution of shareholders and may be distributed as dividends after reversal.

Prior period adjustments reflected in unappropriated retained earnings are as follows (see Note 24):

	In Thousands of Won	
	2002	2001
Unappropriated retained earnings carried over from the prior year, before adjustment	₩ 11,208,976	₩ 9,934,416
Cumulative effect of gain on prior period adjustment	5,825,341	5,669,376
Unappropriated retained earnings carried over from the prior year, as adjusted	₩ 17,034,317	₩ 15,603,792

19. Dividend Information

Dividends for the years ended December 31, 2002 and 2001 are calculated as follows:

Number of common shares outstanding during the year

- 2002 : 146,189,929 common shares
- 2001 : 145,060,897 common shares

The number of common shares outstanding during the year ended December 31, 2002 increased due to the conversion of convertible bonds. In addition, 4,000,000 shares in treasury is excluded in calculating the number of common shares outstanding during the years ended December 31, 2002 and 2001.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Dividend Amounts

Dividends for 2002 and 2001 are in the form of cash dividends, and dividend amounts are calculated as follows:

Formula				In Won
2002	Cash Dividend	Common stock	$146,189,929 \times \text{₩ } 500 \times 15\% \times 365/365$	₩ 10,964,244,675
2001	Cash Dividend	Common stock	$145,060,897 \times \text{₩ } 500 \times 12\% \times 365/365$	₩ 8,703,653,820

Dividend Payout Ratio

	In Won	
	2002	2001
Dividends	₩ 10,964,244,675	₩ 8,703,653,820
Net income	69,488,075,220	30,437,511,864
Dividend payout ratio	15.78%	28.60%

Dividend Yield Ratio

	In Won	
	2002	2001
Dividends per share	₩ 75	₩ 60
Market price per share as of December 31, 2002 and 2001	2,420	2,470
Dividend yield ratio	3.10%	2.43%

20. Capital Adjustments

Capital adjustments as of December 31, 2002 and 2001 comprise the following:

	Thousands of Won	
	2002	2001
Treasury stock	₩ (10,320,362)	₩ (10,320,362)
Conversion right	–	104,236
Unrealized gain on investment securities	21,491,360	42,265,389
Unrealized gain on devivatives	105,298	272,648
Unrealized loss on derivatives	(346,092)	(530,255)
	₩ 10,930,204	₩ 32,791,656

As of December 31, 2002, the Company holds 4,000,000 shares in treasury to stabilize the market price, and recorded treasury stock as a capital adjustment. The Company plans to resell the treasury stock in the near future.

21. Income Taxes

Income tax expense for the years ended December 31, 2002 and 2001 comprise the following:

	In Won	
	2002	2001
Current income taxes	₩ 27,416,034	₩ 17,909,617
Deferred income taxes	(4,180,489)	(7,352,568)
	₩ 23,235,545	₩ 10,557,049

The components of the differences between taxable income and net income before income taxes for the years ended December 31, 2002 and 2001 are as follows:

	In Thousands of Won			
	2002		2001	
	Temporary Difference	Permanent Difference	Temporary Difference	Permanent Difference
Foreign exchange gain or loss	₩ (6,182,423)	₩ –	₩ (4,470,416)	₩ –
Provision for reserve for tax purposes	1,545,810	–	1,754,254	–
Provision for bad debts	(3,975,214)	–	4,108,762	–
Depreciation	12,771,025	–	15,550,458	–
Loss on investments using the equity method of accounting	5,356,342	–	6,754,144	–
Capitalized interest costs	169,390	–	7,735,182	–
Loss on trading of forward contract	(221,580)	–	(443,679)	–
Gain on trading of forward contract	(977,999)	–	–	–
Taxes and dues	–	–	–	1,798,176
Entertainment expenses	–	4,727,298	–	2,671,963
Gain on valuation of investment securities	217,318	(217,318)	(10,669,736)	10,669,736
Loss on valuation of investment securities	472,984	–	137,331	–
Loss on valuation of marketable securities	144,791	–	–	–
Accrued severance benefits	–	–	(6,864,600)	–
Others	4,987,848	(101,355)	494,216	2,065,786
	₩ 14,308,292	₩ 4,408,625	₩ 14,085,916	₩ 17,205,661

During the year ended December 31, 2002, the Company recognized tax credits amounting to ₩ 8,113,242 thousand. The details of the tax credits are as follows:

In Thousands of Won	
Equipment investment tax credits	₩ 5,938,763
Foreign tax credits	1,163,401
Technology and human resource investment tax credits	1,011,078
Total	₩ 8,113,242

Components of deferred income taxes as of December 31, 2002 and 2001 are as follows:

	In Thousands of Won				
	Jan. 1, 2001	Increase (*) (Decrease)	Dec. 31, 2001	Increase (*) (Decrease)	Dec. 31, 2002
Loss on investments using the equity method	₩ 22,003,353	₩ 6,754,144	₩ 28,757,497	₩ 6,017,745	₩ 34,775,242
Allowance for doubtful accounts	4,887,195	2,527,461	7,414,656	(4,963,374)	2,451,282
Depreciation	20,311,093	13,479,752	33,790,845	12,555,920	46,346,765
Severance benefits	6,369,400	(4,236,446)	2,132,954	(2,132,954)	–
Provision for reserve for tax purposes	(3,173,333)	1,696,667	(1,476,666)	1,476,666	–
Loss on valuation of investment securities	4,983,161	137,332	5,120,493	9,658	5,130,151
Loss on valuation of inventories	–	2,635,010	2,635,010	36,661	2,671,671
Foreign exchange gains or losses	11,290,664	(7,092,138)	4,198,526	(3,182,423)	1,016,103
Rescheduling of troubled receivables	–	–	–	9,798,724	9,798,724
Others	(6,446,272)	11,384,591	4,938,319	(5,541,902)	(603,583)
Total	₩ 60,225,261	₩ 27,286,373	₩ 87,511,634	₩ 14,074,721	₩ 101,586,355
Deferred income tax assets	₩ 18,638,091	₩ 7,352,567	₩ 25,990,658	₩ 4,180,489	₩ 30,171,147

The Company periodically assesses its ability to recover deferred income tax assets. In the event of a significant uncertainty regarding the Company's ultimate ability to recover such assets, a valuation allowance is recorded to reduce the asset to its estimated net realizable value.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Details of inter-period allocation of income tax expense are as follows:

	In Thousands of Won
Income taxes on ordinary income	₩ 17,732,874
Income taxes on extraordinary income	5,502,671
	₩ 23,235,545

The statutory income tax rate applicable to the Company, including resident tax surcharges, is approximately 29.7%. The Company's effective income tax rates for the years ended December 31, 2002 and 2001 are 25.1% and 25.8%, respectively.

22. Earnings Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock, which is net income allocated to common stock as adjusted by extraordinary gain or losses, net of related income taxes, by the weighted average number of common shares outstanding during the year.

The weighted average number of common shares outstanding for the year ended December 31, 2002 is calculated as follows:

	Number of Shares	Number of Days Outstanding	Weighted Number of Shares Outstanding
January 1, 2002	149,060,897	365	54,407,227,405
Conversion of convertible bonds (*)	1,129,032	365	412,096,680
Treasury stock	(4,000,000)	365	(1,460,000,000)
			53,359,324,085

(*) Convertible bonds were converted during the year, and number of days outstanding is regarded as 365 in accordance with the term and condition of convertible bonds.

Weighted average number of common shares outstanding:

$$53,359,324,085 \text{ shares} / 365 = 146,189,929 \text{ shares}$$

The weighted average number of common shares outstanding for the year ended December 31, 2001 is calculated as follows:

	Number of Shares	Number of Days Outstanding	Weighted Number of Shares Outstanding
January 1, 2001	149,060,897	365	54,407,227,405
Treasury stock	(4,000,000)	365	(1,460,000,000)
			52,947,227,405

Weighted average number of common shares outstanding:

$$52,947,227,405 \text{ shares} / 365 = 145,060,897 \text{ shares}$$

Basic earnings and ordinary income per share for the years ended December 31, 2002 and 2001, are calculated as follows:

	In Won	
	2002	2001
Net income	₩ 69,488,075,220	₩ 30,437,511,864
Interest for converted convertible bonds	32,386,341	–
Net income for common shares	69,520,461,561	30,437,511,864
Weighted average number of common shares outstanding	146,189,929	145,060,897
Basic earnings per share	₩ 476	₩ 210
Net income for common shares	₩ 69,520,461,561	₩ 30,437,511,864
Less: Extraordinary gain	(18,527,509,963)	–
Ordinary income for common shares	50,992,951,598	30,437,511,864
Add: Income tax for extraordinary gain	5,502,670,460	–
Ordinary income allocated to common stock	56,495,622,058	30,437,511,864
Weighted average number of common shares outstanding	146,189,929	145,060,897
Basic ordinary income per share	₩ 386	₩ 210

Diluted earnings per share is computed by dividing diluted net income, which is adjusted by adding back the after-tax amount of interest expense on any convertible debt and dividends on any convertible preferred stock, by the weighted average number of common shares and diluted securities outstanding during the year. Diluted ordinary income per share is computed by dividing diluted ordinary income allocated to common stock, which is diluted net income allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted average number of common shares and diluted securities outstanding during the year, assuming conversion into common shares at the beginning of the year.

There were no potentially dilutive shares as of December 31, 2002, and weighted average number of potentially dilutive shares outstanding as of December 31, 2001 was 1,129,032 shares.

Diluted earnings per share for the years ended December 31, 2002 and 2001 are calculated as follows:

	In Won	
	2002	2001
Net income	₩ 69,488,075,220	₩ 30,437,511,864
Add: Interest expense of convertible bonds	32,386,341	12,816,274
Diluted net income allocated to common shares	₩ 69,520,461,561	₩ 30,450,328,138
Weighted average number of common shares outstanding during the year	146,189,929	145,060,897
Weighted average number of diluted shares	–	1,129,032
Weighted average number of common shares and diluted securities outstanding during the year	146,189,929	146,189,929
Diluted earnings per share	₩ 476	₩ 208
Diluted net income allocated to common shares	₩ 69,520,461,561	₩ 30,450,328,138
Less: Extraordinary gain	(18,527,509,963)	–
Diluted ordinary income for common shares	₩ 50,992,951,598	₩ 30,450,328,138
Add: Income tax for extraordinary gain	5,502,670,460	–
Diluted ordinary income allocated to common stock	₩ 56,495,622,058	₩ 30,450,328,138
Weighted average number of common shares and diluted securities outstanding during the year	146,189,929	146,189,929
Diluted ordinary income per share	₩ 386	₩ 208

23. Research and Development Costs

Research and development costs incurred during the years ended December 31, 2002 and 2001 amounted to ₩ 44,467,789 thousand and ₩ 41,005,320 thousand, respectively, all of which were charged to current operations.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

24. Restatement of Prior Periods Financial Statements and Violation

The Securities and Futures Commission of Korea noticed that the Company's financial statements as of and for the years ended December 31, 2001, 2000 and 1999 should have been restated to reflect income arising from the operations of offshore financial entities incorporated and controlled by the Company. Accordingly, the Company's financial statements as of and for the year ended December 31, 2001, presented herein for comparative purpose, were restated to reflect income on prior period adjustments, which increased retained earnings as of January 1, 2001, capital adjustments in shareholders' equity as of December 31, 2001 and net income for the year ended December 31, 2001 by ₩ 5,669 million, ₩ 427 million and ₩ 156 million, respectively. Due to this restatement, such financial statements are different from the ones approved during the annual shareholders' meeting held on March 15, 2002. In addition, with respect to this transaction, the Financial Supervisory Commission took warning and administrative actions on the Company for non-compliance with reporting requirements in accordance with the relevant regulations for foreign exchange controls.

The details that were restated to reflect operating income from offshore financial institutions are as follows:

	In Thousands of Won					
	2001		2000		1999	
Ordinary income	₩	40,994,561	₩	30,503,234	₩	70,633,229
Net income		30,437,512		21,166,943		48,713,932
Basic ordinary income per share (In Won)		210		145		327
Basic earnings per share (In Won)		210		145		327

25. Related Party Transactions

Significant transactions with affiliated companies for the years ended December 31, 2002 and 2001 and related account balances as of December 31, 2002 and 2001 are summarized as follows:

	In Thousands of Won					
	Sales		Purchases		Accounts Payable	
Korea Storage Battery Ltd.	₩	–	₩	24,700,949	₩	–
Daehwa Eng' & Machinery Co., Ltd.		1,397,063		13,266,198		1,367,105
ASA Co., Ltd.		99,216		2,492,714		84,356
Hanta M&B Co., Ltd.		–		7,274,188		–
Emfrontier Inc.		–		19,493,521		–
Hankook Tire America Corp.		190,123,179		–		6,099,072
Hankook Tire Canada Corp.		12,200,440		–		368,506
Hankook Tyre U.K. Ltd.		35,455,104		212,768		519,118
Hankook Tire Japan Corp.		20,304,531		–		588,052
Hankook Reifen Deutschland GmbH		69,533,166		775,594		1,749,355
Hankook Tire Netherlands B.V.		47,936,642		–		1,242,661
Hankook Tire France SARL		20,995,670		1,302,133		429,813
Hankook Tire China Co., Ltd.		2,631,358		44,498,705		416,910
Jiangsu Hankook Tire Co., Ltd.		1,168,943		52,423,446		161,897
Hankook Tire Italia S.R.L.		261,149		1,134,182		–
Hankook Espana S.A.		639,276		–		–
2002	₩	402,745,737	₩	167,574,398	₩	13,026,845
2001	₩	328,183,946	₩	122,837,902	₩	26,643,577
					₩	31,388,498
					₩	29,564,743

26. Value Added Information

Accounts for computing value added for the years ended December 31, 2002 and 2001 are as follows:

	In Thousands of Won		
	2002		
	Selling and Administrative Expenses (*)	Manufacturing Costs	Total
Salaries	₩ 40,786,108	₩ 99,008,665	₩ 139,794,773
Severance benefits	7,034,040	17,661,192	24,695,232
Welfare expenses	6,324,727	16,744,570	23,069,297
Rental charges	258,371	65,615	323,986
Depreciation	23,991,126	140,873,603	164,864,729
Amortization of intangible assets	1,677,385	4,231	1,681,616
Taxes and dues	2,526,081	1,239,445	3,765,526
	₩ 82,597,838	₩ 275,597,321	₩ 358,195,159

	In Thousands of Won		
	2001		
	Selling and Administrative Expenses (*)	Manufacturing Costs	Total
Salaries	₩ 37,377,367	₩ 87,882,832	₩ 125,260,199
Severance benefits	6,524,997	9,498,943	16,023,940
Welfare expenses	5,685,916	15,346,421	21,032,337
Rental charges	166,156	10,503	176,659
Depreciation	19,681,591	124,655,622	144,337,213
Amortization of intangible assets	767,738	1,935	769,673
Taxes and dues	4,360,897	1,183,075	5,543,972
	₩ 74,564,662	₩ 238,579,331	₩ 313,143,993

(*) Including ordinary research and development costs.

27. Environmental Investment

Environmental investment for the years ended December 31, 2002 and 2001 are as follows:

	In Thousands of Won	
	2002	2001
Smell protection facilities	₩ 715,300	₩ 1,082,078
Dust collection facilities	191,690	–
Incinerator	22,880	101,100
Wastewater disposal equipment	–	4,100
	₩ 929,870	₩ 1,187,278

28. Social Contributions

The Company's social contributions, including contributions to Hankook Tire Welfare Foundation, for the years ended December 31, 2002 and 2001 amounted to ₩ 2,817,989 thousand and ₩ 1,108,000 thousand, respectively.

As of December 31, 2002 and 2001, the Company provided housing loans to employees amounting to ₩ 913,230 thousand and ₩ 1,892,088 thousand, respectively (see Note 6).

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

29. Housing Construction Contracts

In 2000, the Company launched its housing construction business to utilize the land of its Youngdeungpo Plant. Changes in the construction contracts in progress for the year ended December 31, 2002 are as follows:

	In Thousands of Won					
	Apartment		Store		Total	
Beginning balance	₩	150,194,644	₩	–	₩	150,194,644
Changes in amount or new contracts		–		3,095,868		3,095,868
Revenue recognized (*)		102,336,079		2,497,745		104,833,824
Ending balance	₩	47,858,565	₩	598,123	₩	48,456,688

(*) Amounts recognized as revenue are before discounts due to early payments.

Billing and collection of construction revenue for the year ended December 31, 2002 are as follows:

	In Thousands of Won					
	Apartment		Store		Total	
Cumulative revenue	₩	199,856,576	₩	2,497,746	₩	202,354,322
Current billing		65,491,926		2,497,746		67,989,672
Cumulative billing		203,037,831		2,497,746		205,535,577
Cumulative collection		201,335,106		1,559,414		202,894,520
Accounts receivable on construction contracts	₩	1,702,725	₩	938,332	₩	2,641,057

Costs of housing construction for the years ended December 31, 2002 and 2001 amounted to ₩ 99,674,575 thousand and ₩ 57,394,863 thousand, respectively.

30. Segment Information

Industry Segment Information

Financial information on industry segments for the years ended December 31, 2002 and 2001 are as follows:

	2002			
	In Thousands of Won			
	Tire	Housing	Others (*2)	Total
Sales	₩ 1,346,510,863	₩ 104,375,958	₩ 127,629,659	₩ 1,578,516,480
Operating income (loss)	390,088,690	4,701,382	(291,514,045)	103,276,027
Fixed assets:				
Tangible and intangible assets (*1)	788,289,039	20,059,753	331,495,987	1,139,844,779
Depreciation and amortization	140,878,033	–	25,668,312	166,546,345

	2001			
	In Thousands of Won			
	Tire	Housing	Others (*2)	Total
Sales	₩ 1,226,388,666	₩ 60,137,818	₩ 118,451,337	₩ 1,404,977,821
Operating income (loss)	348,857,081	2,742,955	(232,583,649)	119,016,387
Fixed assets:				
Tangible and intangible assets (*1)	811,730,188	63,482,508	402,995,596	1,278,208,292
Depreciation and amortization	124,660,051	-	20,446,835	145,106,886

(*1) All of the fixed assets of the housing segment represent the cost of land which is accounted for as inventories.

(*2) Other segments include the administration segment. There were no inter-segment transactions or allocation of administration costs among these three segments during 2002.

Geographical Segment Information

Sales Market	In Thousands of Won	
	2002	2001
North America	₩ 227,797,334	₩ 177,666,980
South and Central America	70,281,682	101,228,228
Asia	205,612,136	191,926,230
Europe	290,408,197	250,773,743
Other	36,789,921	30,972,223
Local export	73,937,749	72,927,370
Domestic	673,689,461	579,483,047
Total	₩ 1,578,516,480	₩ 1,404,977,821

Discontinued Segment Information

The Company discontinued its manufacturing operations in the Incheon Plant on February 1, 2001, in accordance with the "Incheon Plant Restructuring Plan" and relocated and disposed of the related property, plant and equipment.

31. Fire Casualties of Kum-san Factory

Certain production facilities and inventories located in the Company's Kum-san factory were destroyed by fire in March 2002. The book value of the damaged inventories and property, plant and equipment amounted to ₩ 3,952 million and ₩ 32,990 million, respectively. Total insurance coverage for the Kum-san factory amounted to ₩ 554,619 million, out of which the estimated coverage for the damaged assets amounted to ₩ 137,239 million. Based on the insurance contracts, the Company estimates the insurance proceeds to be ₩ 55,470 million, out of which, as of December 31, 2002, the Company has received ₩ 38,346 million from the insurance companies, and recognized ₩ 18,528 million as extraordinary gains. Such estimated insurance proceeds are based on the Company's discussion with the insurance companies, and, upon settlement, actual results may differ from the estimated proceeds amount.

32. Supplemental Cash Flow Information

Transactions Not Affecting Cash Flows

Significant transactions not affecting cash flows for the years ended December 31, 2002 and 2001 are as follows:

Sales Market	In Thousands of Won			
		2002		2001
Current maturities of long-term debt	₩	193,840,040	₩	154,308,803
Current maturities of long-term loans		517,394		604,225
Decrease in revaluation surplus		–		3,017,240
Unrealized valuation gain on investment securities		23,184,107		10,242,919
Property, plant and equipment transferred from construction in-progress		219,457,815		11,624,043
Increase in capital surplus arising from the conversion of convertible bonds		1,321,846		–

33. Subsequent Events

The Company resolved to invest in Hankook Tire China Co., Ltd., one of affiliates, with US\$22,710 thousand to construct Passenger Car Radial lines, upon the resolution of the Board of Directors on January 13, 2003. In addition, the Company provided guarantees amounting to US\$5,000 thousand to Hankook Tire Netherlands B.V., one of affiliates, upon the resolution of the Board of Directors on January 14, 2003.

34. Reclassification of Prior Year Financial Statement Presentation

Certain amounts in the financial statements as of and for the year ended December 31, 2001 have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on previously reported net income or shareholders' equity.

REPORT ON THE REVIEW OF THE INTERNAL ACCOUNTING CONTROL SYSTEM

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

January 28, 2003

We have audited the non-consolidated financial statements of Hankook Tire Co., Ltd. (the "Company") as of and for the year ended December 31, 2002 in accordance with auditing standards generally accepted in the Republic of Korea and, in this regard, as required by the Korean Corporate Restructuring Promotion Law, we have also reviewed the Company's accounting system and internal accounting control system ("IACS"). The Company's management is responsible for maintaining an effective IACS.

As prescribed by the Corporate Restructuring Promotion Law, we have also reviewed the following items relating to the appropriateness of the IACS, compliance of the relevant laws and regulations related to the IACS, and reports on the operation of the Company's IACS. However, our review was not intended to examine the effectiveness or appropriateness of the accounting system and internal control system taken as a whole, but rather was a limited review of the Company's IACS to obtain an understanding of the system in order to determine the timing, nature, and extent of our audit procedures, which does not allow us to identify all material weaknesses in the Company's IACS. Thus, our report is restricted to the IACS, which is a part of the overall internal control system.

1. Functions of the board of directors, auditor and IACS manager.
2. Accounting procedures, including accounting information identification, measurement, classification and documentation.
3. Accounting information error control and correction procedure.
4. Internal verification processes, including regular monitoring and settlement.
5. Accounting books and records - management and control process.
6. Accounting work process and the responsibility allocation and compliance procedures.
7. Control processes to manage and protect company assets.
8. Employee's guide to conduct when ordered to violate the IACS by a supervisor.
9. Penalty procedures in case of a violation of the IACS by the employees.

The Corporate Restructuring Promotion Law and other laws, regulations, and professional standards in Korea, do not set forth any objective criteria, or other standards against which a Company's accounting system and internal accounting control system can, or should be, measured. Accordingly, we have selected the criteria relating to our understanding of the current Korean Business Control Environment. We have then applied certain procedures to those criteria as we considered necessary and appropriate in the circumstances. The review procedures we have applied would not necessarily be the same as those applied by others, or applied by us in other circumstances. These review procedures were performed on a test basis and consequently, our review would not necessarily discover all of the significant weaknesses in the company's accounting system and IACS, or identify all instances of non-compliance with the IACS. Additionally, our review was not intended to ascertain the effectiveness, or appropriateness, of the whole internal control system for management purposes, nor was it designed to detect fraud.

Based on the results of our review of the appropriateness and operation of the Company's IACS, according to the Korean Corporate Restructuring Promotion Law, we noted that the Company needs to enhance controls with respect to the organization for operating and monitoring of IACS and strengthen internal check procedures for the underlying data generated from operating departments to be used for accounting information. This observation has no effect on the opinion expressed in our report on the Company's non-consolidated financial statements as of and for the year ended December 31, 2002.

Our review of the Company's IACS is based on the IACS in effect for the year ended December 31, 2002, and we have not reviewed the IACS in effect since that date. This report is intended to be used for Korean regulatory reporting purposes, based on the Corporate Restructuring Promotion Law, and might be inappropriate for any other purposes, or for any other users.

Established: May 1941

Company Address: 647-15 Yoksam-dong, Kangnam-ku, Seoul,
Korea 135-723
Tel: (82) 02-2222-1000
Fax: (82) 02-2222-1100
<http://www.hankooktire.co.kr>

Paid-in capital: 75.09 billion won

Common stock: 150.18 million shares

Preferred stock: –

Total shares outstanding: 150.18 million

No. of Employees: 4,411 (excluding 1,723 contract workers)

Business Domain: Tires, Batteries, Alloy Wheels, Tire Manufacturing Facilities,
Brake Pads & Linings, e-Business

Domestic

- Sales - Domestic sales (35 outlets), OEM sales
- R&D - Main R&D Center
- Production - 2 plants (Geumsan & Daejeon)

Overseas

- Sales - 11 subsidiaries, 6 outlets
- R&D - 4 R&D Centers (U.S., Europe, China, Japan)
- Production - 2 production subsidiaries (Jiangsu & Jiaxing)

Subsidiaries

- Korea Storage Battery, Ltd. - Automotive & industrial-use batteries
- ASA Co., Ltd - Alloy wheels for automobiles
- Daehwa Eng. & Machinery Co., Ltd. - Tire manufacturing facilities
- Hanta M&B Co., Ltd. - Brake pads & linings
- emFrontier, Inc. - e-Business, systems management, systems integration, IT-related fields.

Domestic Operations

• Geumsan Plant

These fully automated, ultra-modern manufacturing facilities incorporate a "green factory" concept of environmental friendliness. Construction on the Geumsan Plant commenced in 1994 and completed in October 1997. With a current production capacity of 10 million tires per annum, this is Hankook Tire's main production base for strategic new products.

• Daejeon Plant

Boasting the world's largest annual capacity at 23 million units, this radial tire facility was completed in 1979 and spurred Hankook Tire's high growth throughout the 1980s. It is presently undergoing restructuring in response to changes in the market environment.

• Main Research Center

The Main R&D Center has played a leading role in Korea's tire research activities since its establishment in 1982 thanks to cutting-edge facilities and high-caliber technical personnel. As the cornerstone of Hankook Tire's R&D program, the center today focuses on creative R&D efforts in order to serve as a global leader of new tire technologies.

Overseas Production Subsidiaries

• Hankook Tire China Co., Ltd.

(formerly Hankook Tire (Jiaxing) Co., Ltd.)

Established in 1996 in the Chinese Special Economic Zone of Jiaxing City, Zhejiang Province, this plant produces radial tires and tubes at an annual production capacity of 4.96 million units. As part of Hankook Tire's global marketing strategy, an additional US\$62.11 million dollars will be invested in this plant to raise annual production capacity to 8.75 million units for supply to local automakers.

• Jiangsu Hankook Tire Co., Ltd.

In 1996, Hankook Tire acquired Qingjiang Tire in the Chinese City of Huaian, Jiangsu Province, as its first-ever offshore production facility. The plant currently produces 2.1 million radial tires & 1.25 million bias tires annually. After a US\$130 million expansion project schedule for completion in 2007, this facility will have a total production capacity of 5.8 million units, including radial tires for trucks and buses.

Overseas R&D Centers

• Akron Technical Center

Hankook Tire's first overseas research facility was established in the U.S. city of Akron, Ohio in 1990 to help Hankook acquire advanced technology and design products specifically for the North American market. The Akron Technical Center is equipped with the latest research and testing facilities and plays a key role in Hankook Tire's efforts to accumulate world-class technology.

• Europe Technical Center

Established in Hanover, Germany in 1997, this center focuses on developing tires suited to European road conditions and driver preferences, which differ from those of North America.

• China Technical Center

This center was established in Jiaxing, Zhejiang Province in 1998, and concentrates its activities on developing tires best suited for the particular climatic and road conditions of China and the rest of the Asian region.

• Japan Technical Liaison Office

Opened in Osaka in March of 2002, the Japan Technical Liaison Office focuses its energies on acquiring technical information related to the Japanese tire market and product development.

1941 May - Chosun Tire Industrial Co., Ltd. established	Oct. - Aggregate production of 100 million tires reached (first in Korea)	1999 Jan. - Small truck tires shipped to Daihatsu (first-ever supply of Korean-made tires to a Japanese automaker)	Nov. - Taejon Plant awarded Facilities Management Award at Nat'l Quality Mgmt. Conference
1942 Oct. - Youngdeungpo Plant started up (with yearly output of 110,000 tires)	Nov. - Akron Technology Center (ATC) established in the US	Jan. - Europe Distribution Center (EDC) established in Rotterdam	- Sales of Nordic 3000 winter tire began
1962 Jan. - Korea's first tire exports begun	1991 May - Series 50, 55 tires developed for the first time in Korea	Feb. - ISO 14001 certification received (Geumsan Plant)	- Received Seoul Economic Daily's Global Marketing Grand Prize
1965 Mar. - KS Mark received for all products, an industry first.	Sept. - Japan Industrial Standard (JIS) Mark received	Mar. - Run-flat tires developed	Dec. - Recognized for superior corporate informatization
1968 Feb. - Corporate name changed to Hankook Tire Mfg. Co., Ltd.	1992 Feb. - Daehwa Engineering & Machinery Co., Ltd. established	May - Ceremonies held marking completion of Jiaxing and Jiangsu plants	- Selected by Hankyoreh Daily for "Hit Tire Product"
Dec. - Company listed on Korea Stock Exchange	July - Alloy wheel sales begun	June - Tire shipments to Ford Motor approved	- Awarded Grand Prize for Global Marketing from Seoul Economic Daily
1974 Jan. - Korea's first radial tires for passenger cars developed	1993 Nov. - Local subsidiary established in Canada	July - Korea's first VR-rated tires developed (Blackbird V)	2002 Mar. - Chosen as official tire of Italy's F3 Championship
1975 Aug. - Korea's first steel radial tires developed	1994 Mar. - ISO 9001 certification received	July - Hankook brand tires shipped to Ford (first in Asia)	Apr. - K701 given "very good" rating in tire test by German ADAC magazine
1977 Jan. - Incheon Plant completed	1995 May - Geumsan Materials Co., Ltd. acquired (currently Hanta M&B Co., Ltd.)	July - Hankook product certified by Volkswagen for use on Polo	- Participated in Korea Auto Salon in Busan
June - D.O.T Mark received from US Dept. of Transportation (Daejeon Plant)	Nov. - Aggregate production of 200 million tires reached (first in Korea)	Nov. - Hankook product certified by Fiat for use on Bravo	- TBR production line expanded at Jiangsu (China) plant
Nov. - Korea Storage Battery Ltd. acquired	Nov. - Exports of US\$500 million reached	Nov. - Brazil's NORM Mark received (Jiaxing, Jiangsu plants)	May - LTR RA08 chosen as "best product" in test by European magazine
1979 Oct. - Daejeon Plant completed (with daily output of 6,500 tires)	1996 Mar. - Local subsidiary established in France	Dec. - Received Gold Tower of Industrial Merit from government on the 36th Trade Day	June - Europe ERP Project kicked off
1980 Aug. - US\$100 million in exports achieved for the first time in Korea's tire industry	May - Local subsidiary established in the Netherlands	2000 Mar. - K406 chosen Very Recommendable in performance test by Germany's Auto Bild magazine	Sept. - Ventus K104 cited for excellent product design
1981 Sept. - Local sales subsidiary established in US (HANAM)	Nov. - Ground broken for Jiaxing Plant in China; operations started at Jiangsu Plant in China	Apr. - Youngdeungpo Plant closed	- Became first Korean tire maker to attend Paris Motor Show
1982 Oct. - Main R&D Center established	1997 Jan. - ASA Co., Ltd. established	June - H714 ranked first in performance test by France's Auto Plus magazine	Oct. - Full-scale operation of ERP in Europe begun (HQ & German subsidiary)
1985 Nov. - Korea's first tire test track completed	May - Europe Technical Center (ETC) established in Germany	July - ERP project kicked off	- Taejon Plant awarded Silver Medal by Korea Standard Association
1990 Oct. - Alloy wheel production technology transfer agreement signed with BBS of Germany	Sept. - QS 9000 certification received (Head Office, Main R&D Center, Daejeon Plant, Geumsan Plant)	Aug. - emFrontier, Inc. established	Nov. - Attended 2002 Seoul Int'l Motor Show
	Oct. - First construction phase completed at Geumsan Plant	Aug. - Q1 Award received from Ford Motor	2003 Jan. - Participated in Tokyo Auto Salon
	1998 Jan. - ISO 14001 certification received (Daejeon Plant, Geumsan Plant)	2001 Mar. - Blackbird V selected #1 in brand power by Korea Management Assoc. (KMA) Consultants	- Signed preliminary partnership agreement with Michelin Group
	July - China Technical Center (CTC) established	June - European Distribution Center completed	
	Nov. - Ceremonies held for initial shipment from Jiaxing Plant and operation start-up at Jiangsu Plant	- Grand Prize from KMA Consultants received for Ventus marketing	
		- Hankook Tire joined global e-commerce consortium RNC	
		- Blackbird V won Good Design Award from Commerce Ministry	
		Aug. - ERP (Enterprise Resource Planning) system launched	
		Sept. - Ventus Sport K104 developed	
		Oct. - Optimo K406 ranked 2nd in global tire test	

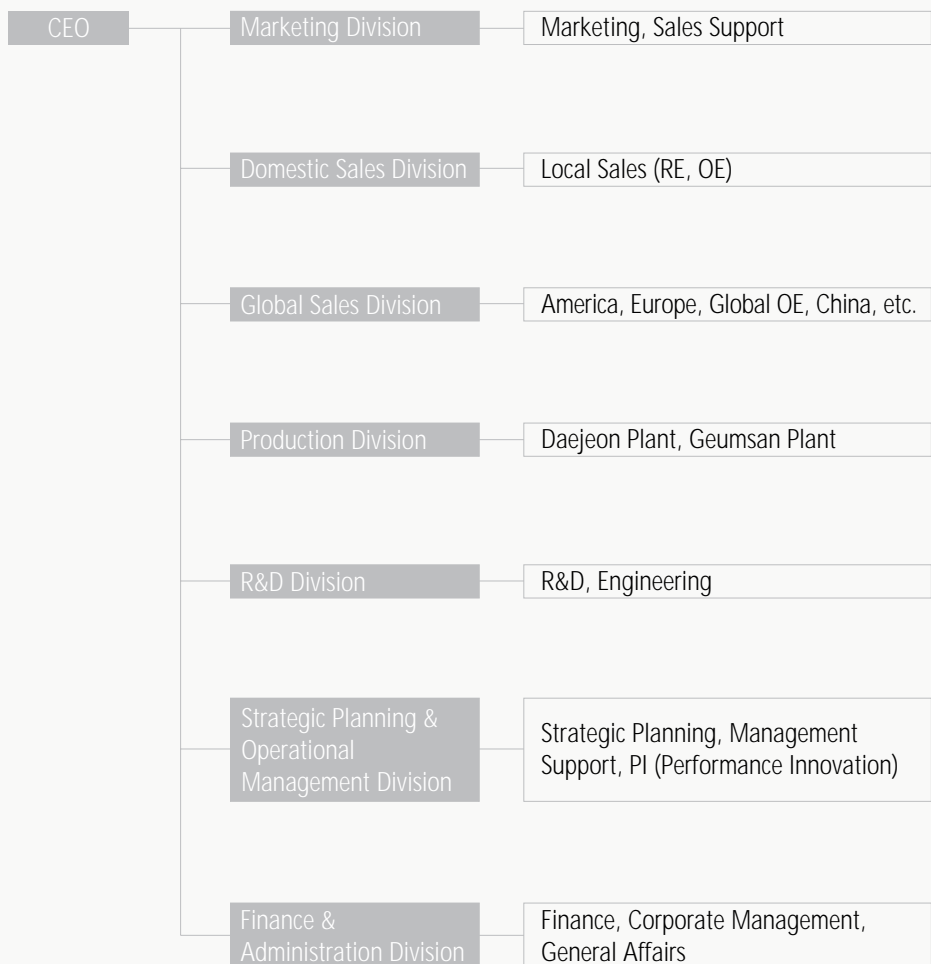
Board of Directors

Chairman	Cho, Yang-Rai
Chief Executive Officer	Cho, Choong-Hwan
Chief Technical Officer	Kim, Hwi-Joong
Executive Vice Presidents	Chey, Jung-Rak Yoon, Yo-Hyun
	Suh, Seung-Hwa Park, Key-Hun
Vice Presidents	Kim, Gwang-Hun Kim, Ui-Ha
	Jin, Seung-Do Lee, Jae-Pyo
	Lee, Jong-Chul Kim, Duck-Jae
	Cho, Hyun-Shick

Organization

Total No. of Employees	4,411 (excluding 1,723 contract workers)
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Organization Structure





Cho, Yang-Rai

- University of Alabama
- Chairman



Cho, Choong-Hwan

- Law, Seoul National University
- Chief Executive Officer



Kim, Hwi-Joong

- Applied Chemistry, Seoul National University
- President
- Present: R&D and Technology Division Director



Chey, Jung-Rak

- Economics, Korea University
- Executive Vice President
- Present: Domestic Sales Division Director



Suh, Seung-Hwa

- Poli. Sci. & Public Admin., Hankuk Univ. of Foreign Studies
- Executive Vice President
- Present: Marketing Division Director



Yoon, Yo-Hyun

- English Lit. & Language, Korea University
- Executive Vice President
- Present: Planning & Management Division Director



Park, Key-Hun

- Applied Chemistry, Seoul National University
- Executive Vice President
- Present: Production Division Director



Lee, Jong-Chul

- Economics, Korea University
- Vice President
- Present: Financing & Corp. Management Dept. Chief



Cho Hyun-Shick

- Economics, Syracuse University
- Vice President
- Present: Overseas Sales Division Director

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