The cover features several overlapping circles in various colors: a yellow circle in the top left, a light green circle in the top right containing the title and logo, a large orange circle in the bottom left containing the main slogan and a paragraph, and a light blue circle in the bottom right. The background is white with faint, thin-lined circles scattered across it.

## Annual Report 2000

**HANKOOK**  
TIRES

## Keeping People Safe and Satisfied

### Deungkurami

Deungkurami-the circle-is the perfect shape, a symbol of eternity and totality. This is the ultimate principle for science, mathematics, humanity and the entire universe. The concept is filled with philosophical meaning for existence and life, the material and the spiritual.



# The Deungkurami Community

Deungkurami brings us together and is uplifting. People feel greater peace within the circle, and they can grow closer. Take a look around! Deungkurami connects and unites our immediate surroundings.

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## *A New Beginning on our 60th Anniversary* *"Trust and Value to the World"*

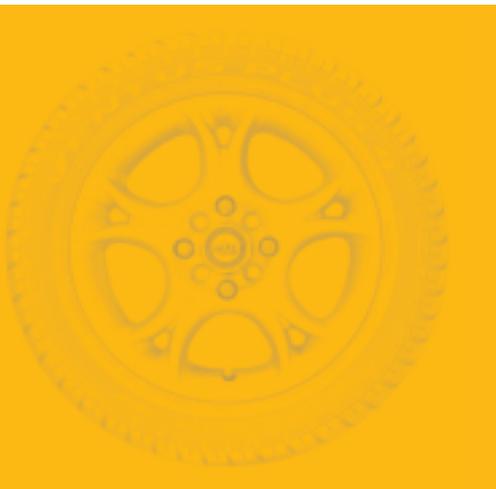
Hankook Tire started out by pioneering Korea's tire industry sixty years ago, and today we are a world-class enterprise. The past six decades have witnessed numerous difficulties, but each time we have managed to prevail through determination and an indomitable spirit. In the process we have grown into a sound company armed with a strong technology base.

Our sales in 2000 came to W1.313 trillion (US\$1,042 million). Hankook Tire went public back in December 1968, and the aggregate value of our listed stocks stood at W302.6 billion (US\$240 million) as of January 31, 2001, the highest figure among all Korean tire companies.

Last year, Hankook Tire established emFrontier in a joint venture with Price-Waterhouse Coopers and we now operate tire production subsidiaries in China in addition to our Korean subsidiaries Korea Storage Battery, ASA, Daehwa Engineering & Machinery, and Hanta M&B. We employed a total of 4,587 persons at the end of December 2000.

Our Enterprise Resource Planning system is now in progress, activating our management innovation infrastructure and repositioning operations around customer satisfaction from recognized top quality. In July 1999, we became Korea's first to deliver a house brand tire to Ford Motor Co., and we have steadily increased the number of overseas automakers that we supply since then. Recognition of the Hankook brand and our product quality is on the rise in world markets, and we are nearing the final stage in production restructuring to give the greatest weight to value-added tires.

In January 2001, Hankook Tire formally announced "Trust and Value to the World" as our new vision for the 21st century. This is our commitment to offering the best products and services to customers so that ultimately we earn the trust of all interested parties and provide value to them. We empower our employees to be creative and professional to achieve our vision goal.





# The Deungkurami Origins

Humankind began from Deungkurami. The origin of Hankook Tire also starts with Deungkurami...in the interest of human safety, well being and peaceful co-existence.



# Corporate History



- May 1941: Chosun Tire Industrial Co., Ltd. established.
- Oct. 1942: Youngdeungpo Plant started up.
- Jan. 1962: Korea's first tire exports begun.
- Mar. 1965: KS Mark received for all products, a first in the Korean tire industry.
- Feb. 1968: Corporate name changed to Hankook Tire Mfg. Co., Ltd.
- Dec. 1968: Company listed on Korea Stock Exchange.
- Jan. 1974: Korea's first passenger car radial tires developed.
- Aug. 1975: Korea's first steel radial tires developed.
- Jan. 1977: Incheon Plant completed for tube production.
- Jun. 1977: Dept. of Transportation (DOT) Mark received from US. (Taejon Plant)
- Nov. 1977: Korea Storage Battery Ltd. acquired.
- Oct. 1979: Taejon Plant completed (with daily output of 6,500 tires).
- Aug. 1980: Korea's first tire maker achieved US\$100 million in annual exports.
- Sep. 1981: Local subsidiary established in US (HANAM).
- Oct. 1982: Main R&D Center established.
- Nov. 1982: Quality Control Grand Prize given to company.
- Nov. 1985: Korea's first tire test track completed.
- Jul. 1989: Korea's first 65 series tires (Optimo Plus) developed.
- May 1990: Top Corporation Prize received from Korea Management Association.
- Oct. 1990: Alloy wheel production technology transfer agreement signed with BBS, Germany.
- Oct. 1990: Hankook becomes Korea's first to reach aggregate production of 100 million tires.
- Nov. 1990: Korea's first foam (specialty) rubber tires (Nordik) developed.
- Nov. 1990: Akron Technical Center established in US.
- Jan. 1991: Hankook becomes world's tenth-ranked tire maker.



- Apr. 1991: Hankook participates in scientific observation rocket project.
- May 1991: Korea's first 50, 55 series tires developed.
- Sep. 1991: Japan Industrial Standard (JIS) Mark received.
- Feb. 1992: Daehwa Engineering & Machinery Co., Ltd. established.
- Jul. 1992: Alloy wheel sales begun.
- Sep. 1993: GD Mark received (Prime Minister's Prize awarded).
- Nov. 1993: Local subsidiary established in Canada.
- Mar. 1994: ISO 9001 certification received.
- Jul. 1994: GD Mark received for alloy wheels.
- May 1995: Kumsan Materials Co., Ltd. (Currently Hanta M&B Co., Ltd.) acquired.
- Nov. 1995: Hankook becomes Korea's first to reach aggregate production of 200 million tires.
- Nov. 1995: Exports reach US\$500 million.
- Mar. 1996: Local subsidiary established in France.
- May 1996: Local subsidiary established in the Netherlands.
- Nov. 1996: Ground broken for Jiaxing Plant in China; operations started at Jiangsu Plant in China.
- Jan. 1997: ASA Co., Ltd. established.
- May 1997: Europe Technical Center established.
- Sep. 1997: QS 9000 certification received (Head Office, Main R&D Center, Taejon Plant, Kumsan Plant).
- Oct. 1997: First construction phase completed for Kumsan Plant.
- Jan. 1998: ISO 14001 certification received (Taejon Plant, Kumsan Plant).
- Feb. 1998: Korea's first 60 series truck & bus tires developed.
- Apr. 1998: Korea's first silica tires developed.
- May 1998: Ultra Mileage & Safety (UMS) theory developed.
- Jul. 1998: China Technical Center established.



H A N K O O K

# 60 YEARS



- Oct. 1998: Overall Grand Prize for Management Innovation and Top Manager Prize for 1998 received from Korea Management Association.
- Nov. 1998: Ceremonies held for initial shipment from Jiaxing Plant and operation start-up at Jiangsu Plant.
- Nov. 1998: Korea Industrial Design Award received (Aurora K103).
- Dec. 1998: Ministry of Information & Communications includes Hankook among "30 top companies for information development in 1998."
- Jan. 1999: Company ships small truck tires to Diahatsu (the first Korean company to supply a Japanese automaker).
- Jan. 1999: Europe Distribution Center established in Rotterdam.
- Feb. 1999: ISO 14001 certification received for environment-friendly operation (Kumsan Plant).
- Mar. 1999: Hankook products ranked first in German and Greek tire tests.
- Mar. 1999: Hankook product ranked third in Swedish tire performance test.
- Mar. 1999: Run-flat tires developed.
- May 1999: Ceremonies held to mark completion of Jiaxing and Jiangsu Plants.
- May 1999: Company information system awarded prize at Productivity Contest for 1999.
- Jun. 1999: Tire shipments to Ford Motor approved.
- Jul. 1999: Korea's first VR-rated tires developed (Blackbird V).
- Jul. 1999: Hankook becomes first company in Asia to ship Hankook brand tires to Ford.
- Jul. 1999: Volkswagen certifies Hankook product for use on Polo.
- Nov. 1999: ISO 9002 certification received (Jiaxing Plant).
- Nov. 1999: Fiat certifies Hankook product for use on Bravo.
- Nov. 1999: Brazil's NORM Mark received (Jiaxing, Jiangsu Plants).
- Nov. 1999: Korea Industrial Design Award received (Ventus K102).
- Dec. 1999: Company receives Gold Tower Industrial Medal for export performance from Korean government.
- Mar. 2000: Hankook ranked first for brand power by Korea Management Association.
- Mar. 2000: K406 chosen "Most Recommended Product" in performance test by Germany's *Auto Bild* magazine.
- Apr. 2000: Youngdeungpo Plant closed.
- Jun. 2000: Korea Marketing Grand Prize received (sponsored by Korea Management Association.).
- Jun. 2000: H714 ranked first in performance test by France's *Auto Plus* magazine.
- Jul. 2000: ERP project kicked off.
- Aug. 2000: emFrontier, Inc. established.
- Aug. 2000: Q1 Award received from Ford Motor.
- Dec. 2000: Presidential Prize received in 2nd annual Korean Design Management Awards.

# Financial Highlights

(in millions of US dollars)



	in billions of Korean Won				in millions of US dollars			
	1997	1998	1999	2000	1997	1998	1999	2000
◆ <b>Global Sales</b>	1,158	1,346	1,353	1,502	919	1,068	1,074	1,192
HK Sales	1,158	1,346	1,277	1,313	919	1,068	1,014	1,042
China Plants Sales	-	-	76	189	-	-	60	150
<b>HK :</b>								
Operating Income	111	123	127	106	88	98	101	84
Ordinary Income	16	33	60	34	13	26	47	27
Net Income	10	20	41	23	8	16	32	19
Total Assets	1,546	1,775	1,895	1,948	1,227	1,409	1,504	1,546
Total Liabilities	1,240	1,099	1,105	1,026	985	873	877	814
Shareholders Equity	305	676	789	922	242	537	627	732
* Cash Flow	118	165	246	159	94	131	195	126
Book Value per Share (Korean won)	46,420	* 10,126	* 5,455	6,185				
Cash Flow per Share (Korean won)	17,912	* 2,471	* 1,700	1,068				
Number of Employees	5,575	5,112	5,094	4,587				

◆ Global : HK sales and China Plants (Jiaxing, Jiangsu)

\* Cash flow from operating activities

\* A ten-for-one split on August 1, 1998

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

## A New Beginning on our 60th Anniversary “Trust and Value to the World”

### Greetings to Our Shareholders:

In 2000, Hankook Tire invested heavily and underwent many changes to build the platform for a new growth surge. I would like to map out our strategic direction for you and explain the crux of our business in the coming decade. Let me begin by discussing the results we have achieved.

The Uranus Project refers to the second construction phase of our plant at Kumsan, Korea. This project aims to raise the profitability of our existing tire business and it is scheduled for completion in the first half of 2001. The new facilities we are building represent part of our effort to more quickly adjust to changing market demand, which is increasingly geared toward value-added products.

Meanwhile, the old plant in Seoul's Youngdeungpo District, which played such an important role in our history and growth over the years, finally lost its competitiveness. Therefore, we shut it down and moved the operation to Kumsan.

Much of the Youngdeungpo plant site is now being converted into an apartment complex. The units have already been sold, and apartment construction has begun. The rest of the land is to be sold for industrial use. We expect an estimated cash injection of W160 billion from the disposal of the old plant site.

Besides, the Incheon tube plant production was transferred to China in 2000, since tube production is no longer competitive in the domestic market. The program for getting the China plants into the black has been proceeding smoothly, and that goal will be reached in 2001.

In addition to improving the profitability of existing business lines, I would like to discuss our effort to create future value through the development of new growth engines. This strategy includes the building of a companywide Enterprise Resource Planning system. ERP, the most advanced set of work processes available, is the system of choice for many of the world's leading companies. We are adapting ERP for Hankook Tire's unique circumstances.

Last July, the Process Innovation Division kicked off the first stage of the ERP project. The initial goal is to double ordinary income while reducing delivery times and inventories to appropriate levels. The ERP system started up operation at HANAM in the US early in 2001, and we are scheduled to have it running at the Korean operations from July 1.

Hankook Tire is also embracing the new business paradigm for the 21st century. We formed a strategic alliance with Price-Waterhouse Coopers Korea and signed a joint venture agreement to establish emFrontier, which will be involved in e-commerce. The groundwork has now been laid for Hankook Tire and PwC Korea to exchange information and pursue joint projects continuously. In the process, Hankook Tire is shedding its image as an offline manufacturer and building a new image as an online marketer. We expect this transition to increase our corporate value.



*I believe that Hankook Tire will build upon the growth platform built in 2000 to maximize income in 2001. We will increase the ratio of value-added products in our export product mix. At the same time, we will strive to elevate the image of our brand and technological expertise in world markets.*



The Korean economy is now facing tough times. Moreover, people are growing pessimistic about the chances for the US economy to make a soft landing. The current uncertainty makes it hard to discern the direction in which the US economy is headed. Many economists now point out that the real Korean economy is very likely to receive a major shock even under the soft landing scenario. Hankook Tire, with a higher percentage of total sales coming from exports, is clearly faced with a daunting challenge of overcoming a global slump stemming from a slowdown in US economic growth.

However, I believe that Hankook Tire will build upon the growth platform built in 2000 to maximize income in 2001. We will increase the ratio of value-added products in our export product mix. At the same time, we will strive to elevate the image of our brand and technological expertise in world markets.

Hankook Tire became Korea's first to supply tires under its house brand to Ford in July 1999 and we aim to boost direct sales to overseas automakers by at least 25% in 2001.

Our marketing activities will focus on value-added products, and we aim to at least double the sales of high-performance tires this year. Importantly, the Europe Distribution Center went into full operation in March 2001, and the improved logistics will help to raise customer satisfaction throughout the region.

Hankook Tire celebrates its 60th anniversary this year. We formally

declared a new vision under the motto 'Trust and Value to the World' on January 2, and in the process of achieving this vision we are confident that we can bring the Korean tire industry up to a new level.

The Hankook Tire corporate culture is being reshaped as we look to the future. First, we will practice managerial transparency to earn shareholders' trust and be an attractive corporate investment. We will offer the products that satisfy customers and get their loyalty and repeat business in return. Hankook Tire will also be goal-oriented company that empowers employees to apply their creativity and professionalism to achieve the corporate vision.

As we announce a new corporate vision, we are starting out anew in our sixtieth year, confident that we can adeptly overcome any adversity or environmental change that we may face in the future.

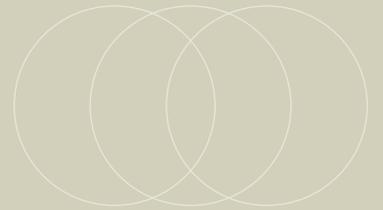
I can assure you that every one of our employees is committed to achieving these ambitious goals.

Cho, Choong-Hwan  
President & CEO  
March 2001

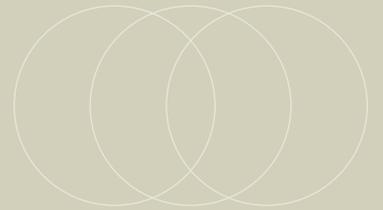
Members of Management Meeting



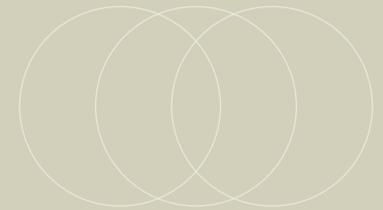
**Cho, Yang-Rai**  
*Chairman / Director*



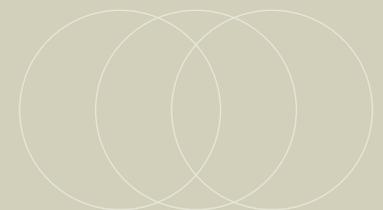
**Cho, Choong-Hwan**  
*President & CEO / Director*



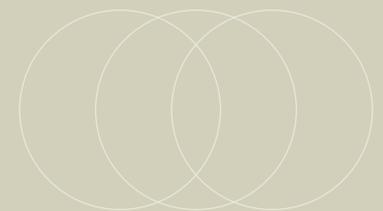
**Kim, Hwi-joong**  
*Executive Vice President / Director  
R&D Center*



**Park, In-Hwan**  
*Executive Vice President / Director  
Production*

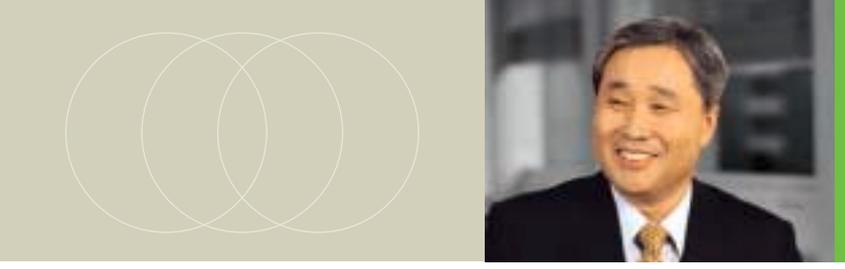


**Moon, Chang-Kyu**  
*Executive Vice President / Director  
Management Planning, Financing & Accounting*

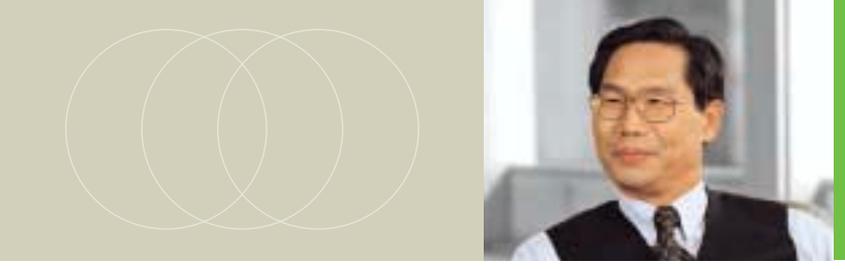




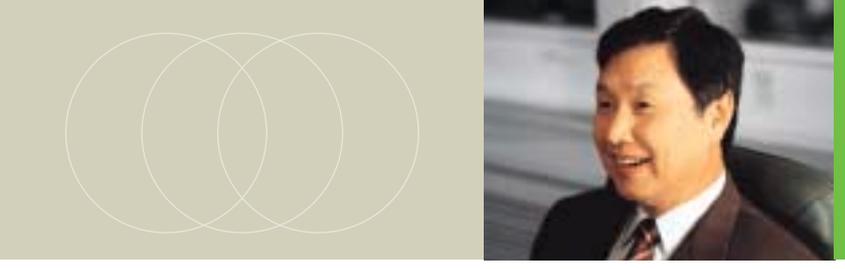
**Suh, Seung-Hwa**  
*Executive Vice President / Director Overseas Sales*



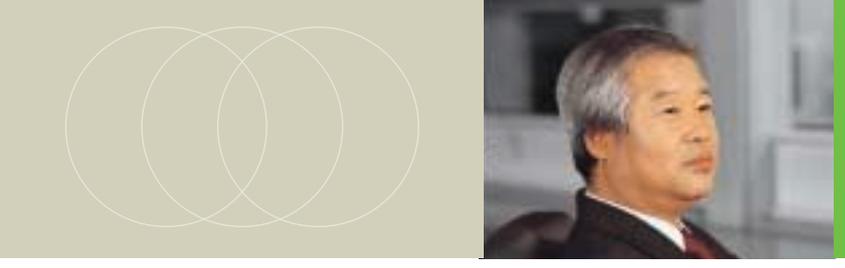
**Lee, Heui-Song**  
*Vice President Domestic Sales*



**Yoon, Yo-Hyun**  
*Vice President Human Resources & Process Innovation*



**Park, Key-Hun**  
*Vice President Engineering Division*



**Park, Hwan**  
*Vice President Logistics*



**Board of Directors** (as of Jan. 1, 2001)

● <b>Chairman</b>	Cho, Yang-Rai		
● <b>President &amp; CEO</b>	Cho, Choong-Hwan		
● <b>Executive Vice President</b>	Kim, Hwi-Joong	Han, Young-Kil	Park, In-Hwan
	Chey, Jung-Rak	Moon, Chang-Kyu	Suh, Seung-Hwa
● <b>Vice President</b>	Hur, Young-Kil	Lee, Heui-Song	Yoon, Yo-Hyun
	Park, Key-Hun	R. Labuda	Yamagishi Koichi
	Cheun, Dae-Kyo	Roh, Wan-Kyu	Shim, Jae-Woong
	Back, Byeong-Tae	Choi, Kwang	Gim, Gwang-Hun



**Organization** (as of Dec. 31, 2000)

**Total No. of Employees** 6,350 (including 1,763 contracted workers)

**Organizational Structure**

Administration	Sales Support, General Administration
Production	Taejon Plant, Kumsan Plant
Sales	Domestic Sales, Overseas Sales
R&D	Main R&D Center, Akron Technical Center, Europe Technical Center, China Technical Center
Engineering	Plant Engineering Division



<b>Domestic</b>	<b>Sales</b>	Retail outlets (34), OEM sales
	<b>R&amp;D</b>	Main R&D Center
	<b>Production</b>	2 plants (Kumsan, Taejon)
<b>Overseas</b>	<b>Sales</b>	11 subsidiaries, 6 branches
	<b>R&amp;D</b>	3 R&D centers (Akron/Europe/China Technical Center)
	<b>Production</b>	2 plants (Jiaxing, Jiangsu)
<b>Subsidiaries</b>	<b>Korea Storage Battery Ltd.</b>	automotive and industrial-use batteries
	<b>ASA Co., Ltd.</b>	alloy wheels for cars
	<b>Daehwa Engineering &amp; Machinery Co., Ltd.</b>	tire production facilities
	<b>Hanta M&amp;B Co., Ltd.</b>	brake pads and linings
	<b>emFrontier, Inc.</b>	e-commerce, system management, system integration, and information technology

# The Deungkurami Network

The world is made up of small points. These points are brought together to form lines, which, in turn, are connected to configure the circle that girds the earth. Moreover, the massive network creates the microcosm of joy that fills people's hearts. Therefore, Hankook Tire treasures the numerous points found throughout the world. We develop optimal products to suit the vehicles, road conditions and living environment of individual nations, for we know the origin that links the world together. Our local-oriented operational system brings the world together via the Deungkurami network.

## *Domestic Operations*

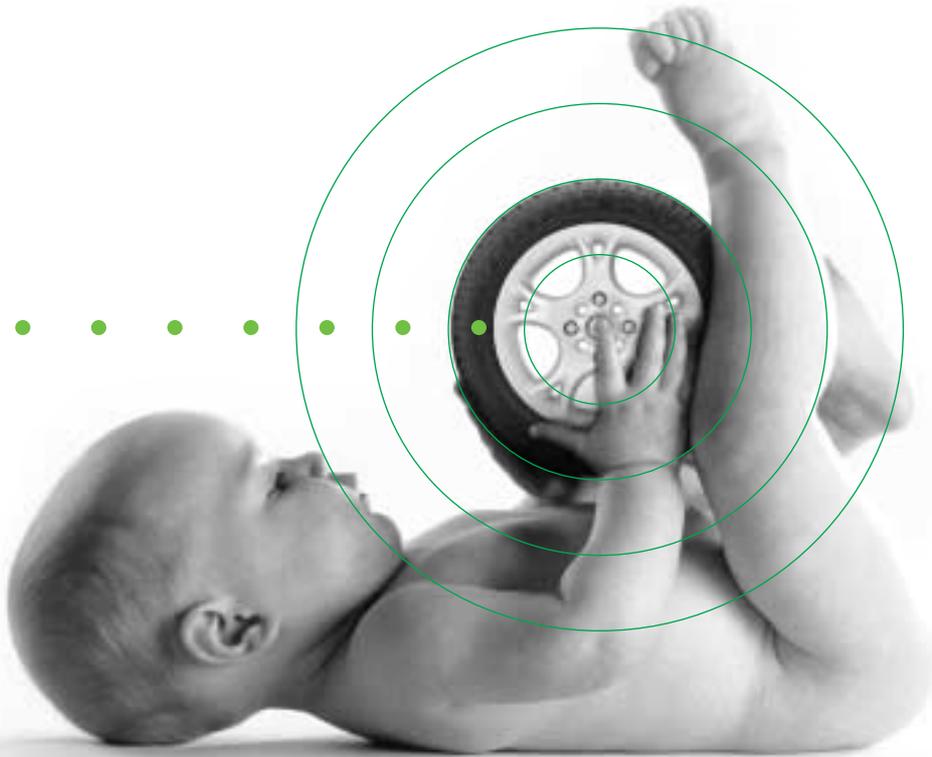
**Kumsan Plant:** Ground was broken in 1994, with the first construction phase completed in October 1997. This state-of-the-art, environment-friendly production facility currently can turn out 7.7 million tires a year. The Kumsan plant will be Hankook Tire's main production base for the 21st century, with a total of W546 billion being invested through 2007 to increase annual capacity to 11.5 million tires.

**Taejon Plant:** This radial tire production facility was completed in 1979 after two years of construction and drove Hankook Tire's high growth throughout the 1980s. Today, it stands as the world's largest tire plant, with an annual output capacity of 23 million units.

**Youngdeungpo Plant:** This bias tire plant contributed greatly to Hankook Tire's revenues in years gone by. However, production restructuring required that the plant be closed in April 2000, with operations being transferred to Kumsan.

**Inchon Plant:** This plant turned out some of the world's highest quality tire tubes but was shut down on February 1, 2001 as part of Hankook Tire's restructuring plan, which focuses on high value-added products.

**Main R&D Center:** Opened in 1982, the center is equipped with the latest research facilities and staffed by outstanding engineers. As such it has pioneered Korea's tire industry and is the cornerstone of Hankook Tire's R&D program. The dedicated researchers here now have their sights on being leaders in world tire technology breakthroughs.



### *Overseas Operations*

**Hankook Tire(Jiaying) Co., Ltd.:** This radial tire and tube plant was established in the Special Economic Zone in Jiaying City, Zhejiang Province, China in 1996. Production targets for 2001 are 2.8 million tires and 5.2 million tubes. A production expansion project is scheduled for completion in 2003, boosting annual output to 4.5 million tires and 6 million tubes.

**Jiangsu Hankook Tire Co., Ltd.:** Hankook Tire acquired Qingjiang Tire in Huaiyin City, Jiangsu Province, China as its first-ever offshore production facility in 1996. Current annual output is set at 1.1 million bias tires and 2 million radials. Bias tire production capacity will be expanded to 1.3 million in 2004.

**Akron Technical Center:** Hankook's first overseas research center was established in Ohio, USA in 1990 to help the company 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 is playing a key role in Hankook's efforts to acquire world-leading technical expertise.

**Europe Technical Center:** This center was established in Hanover, Germany in 1998 to develop tires best suited for European road conditions and driver preferences.

**China Technical Center:** This center was opened in Jiaying, Zhejiang Province to develop tires for the roads and driver preferences in China and the rest of Asia.



## Subsidiaries

### **Korea Storage Battery Ltd. (Nov. 1977)**

Established in 1944, KSB has led the development of Korea's battery industry and today produces batteries for automobiles, ships, and industrial applications. The company has grown steadily and was re-capitalized in 1999. In 2000, a new plant was completed in Jeonju, Korea as part of a concerted effort to join the ranks of the world's top ten battery makers.

### **ASA Co., Ltd. (Jan. 1997)**

Hankook Tire established this company in 1997 to acquire technological self-sufficiency in alloy wheel production. Since then, the company has become an independent subsidiary and expanded its state-of-the-art facilities with the aim of becoming one of the world's top alloy wheel makers.

### **Daehwa Engineering & Machinery Co., Ltd. (Feb. 1992)**

The company was established in 1992 and runs its own research center for localizing the production of tire manufacturing facilities.

### **Hanta M&B Co., Ltd. (May 1995)**

Hanta M&B was first in Korea to develop friction materials to replace asbestos, and is a leading producer of brake pads and linings. The company owns domestic and overseas patents on forming and recovering iron powder used in friction materials.

### **emFrontier, Inc. (Aug. 2000)**

This joint venture with Price-Waterhouse Coopers is involved in e-commerce, system management, system integration and other IT areas. The company serves as a think-tank for cultivating high-growth business areas.



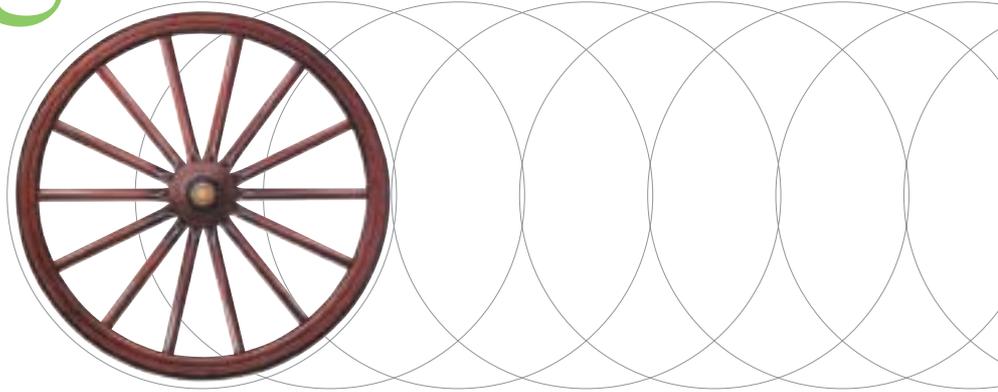
Operation Review

# The Deungkurami Family

We are primarily concerned with the safety and well being of people.



# The Deungkurami Safety



## Uranus Project Successfully Progressing

The Uranus Project, the second construction phase at the Kumsan Plant, is progressing smoothly and is scheduled for completion in the first half of 2001. The project includes the transfer of the Youngdeungpo Plant operations to Kumsan and the restructuring of the overall product mix to more quickly adjust to changing tire markets. Annual production of value-added, ultra-high-performance tires (high-speed-rated, low series tires) is being increased to 1 million units. At the same time, truck and bus tire output is being raised by 350,000 units a year to accommodate market demand that has grown faster than supply. These changes have helped lay the groundwork for long-term development.

High annual growth rates are expected for truck and bus radials. By increasing output, Hankook Tire will alleviate the current supply shortage and greatly boost total sales for 2001. At the same time, ultra-high-performance tires, which require sophisticated design and manufacturing technology, are twice as profitable as regular tires and the demand of it is surging. Therefore, the Uranus Project is aimed to redirect the company's focus from quantitative growth to qualitative growth from more value-added tires in the product mix.



## Youngdeungpo, Incheon Plants closed

Production restructuring is part of the drive to raise profitability. This effort included closing the marginally profitable domestic tube production and moving operations from the old plant in Seoul's Youngdeungpo District to the new plant at Kumsan. Around 50,000m<sup>2</sup> of the Youngdeungpo plant site is being used for apartment construction, while another 16,500m<sup>2</sup> is to be sold for industrial use. The property is expected to bring in some W160 billion in cash by 2003. These funds will pay for the Kumsan Plant expansion and operational transfer to Kumsan. Some of the cash will also be reinvested into the development of new venture businesses with high growth potential or used in Hankook Tire's overall restructuring effort. Meanwhile, tube production at Incheon was transferred to China in two stages. The plant operation was suspended at the end of June 2000, and the plant was permanently closed in February 2001.



## The Deungkurami Satisfaction

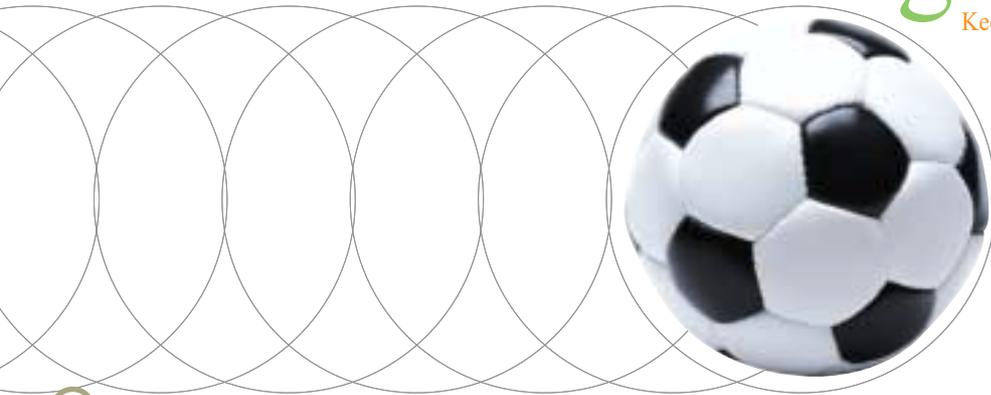


### China Plants Poised to Turn a Profit

In May 1999, Hankook Tire officially began production operations at two locations (Jiangsu and Jiaxing) in China in order to move production offshore and gain a foothold in this vast new market. Tire demand worldwide is growing just 1-2% a year, but in China the annual growth is 8-9%. Hankook Tire's unsparing support for its China plants has already put them among the market leaders, and they are expected to go into the black in 2001. This is an amazing achievement, considering the huge initial investments involved in such projects. Importantly, Hankook Tire has focused heavily on ongoing technology and quality improvement. As a result, the Jiangsu plant was granted the Korea Standard (KS) Mark in July 2000. Meanwhile, production capacity at both plants is being steadily increased to satisfy growing demand while effort to reduce costs are ongoing. Hankook Tire has also established four branches in China to strengthen local sales channels and launched a distinctive marketing campaign to raise the Hankook image. Therefore, the foundation has been laid for both plants in China to turn maximum profit. They will be run continuously at full capacity so that Hankook can capture the second largest share of the Chinese market by 2004. However, many issues remain to be solved in China such as improving product quality and distribution channels, positioning the retail price to fit the image of a market leader, cutting operational costs, securing local OE orders, and expanding passenger car radial production capacity, which is still inadequate. Therefore, Hankook Tire will lend its full support to settle these issues as quickly as possible, improving the ability of China operations to be self-sustaining and to pave the way for Hankook Tire's globalization.

# The Deungkurami

Keeping People Safe and Satisfied



## ERP System Construction

Amid the rapidly changing digital management environment, adopting the Enterprise Resource Planning system is not a matter of choice but a necessity for survival. Aware of the situation, Hankook Tire launched its own ERP construction project in earnest. This is an integrated information system that most efficiently manages all human and material resources used in corporate activities, strengthening competitiveness as a result.

In other words, Hankook Tire has adopted the most advanced work processes now being used at the world's leading enterprises and modified them to fit Hankook's unique circumstances. ERP represents a customer satisfaction system and enables Hankook Tire to globalize operations most effectively. Reduced logistics costs and other expenditures enhance the company's bottom line and maximize the utility of all company resources—materials, facilities and people. Efficiency gains will improve both sales performance and strategic decision making through better internal information sharing.

Moreover, ERP makes real-time data management possible and advances information technology utilization, greatly enhancing Hankook Tire's competitiveness. The ERP construction project was kicked off on July 1, 2000 and is now being carried out by six teams of consultants and selected in-house specialists under the direction of the Process Innovation Division. Targets during the first phase of the project include doubling ordinary income while cutting lead times and inventories in half. Hankook Tire America (HANAM) put its ERP system online on February 1 and the system is scheduled to open at all Korean operations on July 1, 2001.



## Joint Venture Formed with PwC Korea

Hankook Tire and Price-Waterhouse Coopers Korea are partnering in e-commerce. A joint venture contract to establish emFrontier was signed on August 4, with each partner investing W1 billion initially. The new company is developing e-commerce, system management, system integration and other information technology areas. It will also be used as a think-tank for pioneering new markets with high growth potential.

As emFrontier establishes its business lines, a foundation for long-term income will be built. Hankook Tire expects to raise the value of its existing businesses through the joint venture as well. Moreover, the strategic alliance with PwC Korea will enable the two partners to share information and work on joint projects. In the process, Hankook Tire will build a new image as an online company.



### Companywide HQ 2000 Campaign

The HQ 2000 (Six Sigma) campaign has been successfully implemented companywide to reduce quality costs. Over sixty related projects have been completed so far, saving W8 billion directly and cutting quality costs by some W27 billion. The campaign objective is to achieve W129.5 billion in cost reductions through 2001, and the project will serve a model of quality innovation for other Korean firms to emulate.



### Asset Revaluation

Hankook Tire's assets were revalued as of July 1, 2000, and the increment was W147 billion(US\$116 million).



### New Product Development

More than twenty new tire products were developed in 2000, including seven passenger car tire patterns.



### Quality Standards and Environmental Certifications

Ford Motor, one of the US Big 3 automakers, presented Hankook Tire with its Q1 Award on August 30. This award automatically qualifies Hankook to participate in all new Ford automobile projects. Meanwhile, the Kumsan Plant received the Korea Standard (KS) and Japan Industrial Standard (JIS) Marks.



### External Commendations

The K406 passenger car tire came in fourth overall in a test by Germany's *Auto Bild* magazine, which gave the product its "Most Recommended" rating. The H714, meanwhile, won top honors in a performance test by **Auto Plus** magazine of France. In Korea, the Blackbird VR-rated tire was chosen first for brand power in 2000 and was given the Grand Prize at the Korea Marketing Awards. In December, Hankook Tire was presented with the Honorary Presidential Prize at the Korea Design Management Awards.



### Annual Output Breaks 30 Million Tires

Hankook Tire continues to improve product quality and production efficiency as well as to expand capacity at the Kumsan Plant to accommodate increasing demand. As a result, the company's overall tire output is forecast to reach 34 million units in 2001.



### Expanded Overseas OE Sales

Since Ford Motor selected Hankook Tire as one of its five official tire suppliers, Hankook's OE sales have continued to soar. The company supplied tires to Ford and Daihatsu in 2000 and is pursuing various projects with other automakers. Starting in 2001, Hankook is scheduled to deliver US\$ 6 million worth of tires to Volvo and Mitsubishi, and deliveries to Daihatsu are also expected to increase this year.



### Domestic and Export Price Increases

Hankook Tire raised the price of its export tires to offset the weakening Euro and rising raw material prices in the first quarter of 2000. In December, prices were increased an additional 5-10% on tires being sold overseas as well as the domestic market. These price hikes are helping the company to maintain its profit margin.



### Ground Broken for EDC

A ceremony was held in Rotterdam to kick off the construction of the Europe Distribution Center on May 17, and the center started up operation in September. The EDC will handle around 3 million tires and 1 million batteries a year-about 25% of the total volume of Hankook products being sold throughout Europe.

# Share Price Analysis

## Valuation

			1998		1999		2000	
			Low	High	Low	High	Low	High
P	E	R	20.8	6.3	52.0	11.3	21.0	10.0
P	C	R	2.5	0.8	12.5	2.7	3.2	1.5
P	B	R	1.4	0.4	2.7	0.6	0.5	0.3
EV/EBITDA			4.0	2.9	10.8	4.3	4.8	3.7

(multiples)

## Market Price Information

		1996	1997	1998	1999	2000
<b>KOSPI</b>						
Peak Price		991.22	799.54	599.32	1,028.07	1,059.04
Bottom Price		643.57	338.94	277.37	498.42	500.60
Closing Price		651.22	376.31	562.46	1,028.07	504.62
<b>Hankook Tire</b>						
Peak Price		5,300	4,500	6,260	14,700	3,290
Bottom Price		2,910	1,540	1,910	3,200	1,565
Closing Price		3,240	1,900	5,100	3,200	1,695

(pt., Korean Won)

## Main Financial Ratios

		1996	1997	1998	1999	2000
Debt-to-equity Ratio		391.1	406.3	162.5	140.0	111.3
Net Income to Stockholder's Equity		4.1	3.5	4.1	5.6	2.7
Return on Assets (times)		0.9	0.8	0.8	0.7	0.7
Net Sales Growth Rate		16.3	13.5	16.2	-5.1	2.8

(%)

## KOSPI vs. Hankook Tire Stock Trend



Hankook Tire operates an Investor Relations Team that performs consistent IR activities over the long-term to build investor confidence and ensure operational transparency. The IR Team systematically gathers feedback from investors and shareholders and represents investor interests.

The Team posts an IR section on the Hankook Tire web site to provide easy access to vital financial information. The web site bulletin board is used to collect the opinions of shareholders and investors. Moreover, quarterly financial reports are produced and distributed to shareholders, and an annual performance review is handed out at the general shareholders meeting. The IR Team also arranges meetings with senior management, receives visitors from investor firms and holds one-on-one meetings to convey the information that investors want. In the future, the IR Team will continue to disclose operational performance publicly while at the same time collecting opinions, which will then be reflected in Hankook Tire's management policy.

### IR Activities in 2000

During 2000, the IR Team held the overseas factory tour as one of the regular meetings with analysts and fund managers to keep them quickly and precisely informed on operational performance and business activities. Over 100 one-on-one meetings were held to promote accurate understanding of the company. Quarterly reports were prepared and mailed to shareholders (those holding at least 2,000 shares of stock at the end of 1999) during 2000. A business report and annual report were also published and distributed.

### Share Price Management Policy

- The focus was put on maximizing EVA and shareholder value.
- Cash was generated from the sale of the Youngdeungpo apartment project and sale of marketable securities.
- The company is being transformed into an online operation.
- Management contracts are now made between managements and the representative of shareholders to ensure operations are run in the shareholders' interest. Performance assessment is based on EVA (60%), aggregate value of listed stocks (20%), brand awareness (10%) and employee satisfaction index (10%).
- IR activities are ongoing to raise the level of transparency and trust as well as to ensure that shareholder interests remain the priority.
- Adhering to the policy of managing the securities market and providing high dividends, the company will buy back its own stock when necessary. (The decision was made to purchase four million shares, 2.76% of the total, by the Hankook Tire Board of Directors on February 24, 2000.)



### IR Activity Results

#### Higher corporate image:

The IR survey in February 2000 showed that investor sentiment toward Hankook Tire had improved since the first survey was run in September 1998.

#### Hankook Tire got high appraisals from foreign investors, major domestic institutional investors and analysts.

#### More shareholders:

From 2,352 at the end of 1997 to 8,893 at the end of 1998 (278% YOY increase) to 66,483 at the end of 1999 (648% YOY increase).

#### Increased foreign ownership of equity:

From 8.32% at the end of 1999 to 17.13% at the end of 2000.



Hankook Tire's growth mirrors the history of modern Korea's development. Today, all Hankook Tire employees are committed to a new vision of providing trust and value to the world.



## *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.



## ***Slogan: A New Growth Surge on Our 60th Anniversary***

### **Rapid Implementation of Process Innovation**

- Use ERP to optimize, integrate and standardize all systems.
- Build a decision-making system that quickly responds to changing environment.
- Build a process-based organization that is both specialized and versatile.
- Implement a new personnel assessment and compensation system based on ability and performance.
- Implement a management assessment system.
- Empower those who do the work to take the lead in projects.
- Manage change scientifically and systematically.
- Make the HQ 2000 program part of everyday work life.
- Get all employees involved in operational innovation.

### **Structure Operations around Added Value**

- Build marketing and production systems that cater to the customer.
- Achieve production flexibility to accommodate changing demand.
- Maximize return on investments.
- Complete the Uranus Project and raise profitability.
- Get the Chinese operations into the black.
- Continue to restructure domestic distribution.
- Ensure OE sales and export sales profitable.
- Expand market share for strategic products and raise brand awareness.
- Be first to acquire technology for overseas OE products and ultra-high-performance tires.
- Improve capabilities to predict demand and market products.
- Strengthen the quality control functions.
- Build a quality assurance system for Chinese-made products and off-take products.
- Thoroughly manage new product development (to minimize failure costs).
- Increase future revenues by investing in new, high-growth business areas.

### **Establish a New Corporate Culture**

- Rebuild management system to embrace the new corporate vision.
- Base labor-management relations on cooperation and trust.
- Create a work atmosphere that recognizes professionalism and creativity.
- Eliminate the conservative, bureaucratic mindset.
- Lay the groundwork for a knowledge management system.
- Promote empowerment and decentralization.
- Practice transparent management and adhere to global standards.
- Make the best use of the Academy House.





**Sales and Revenue Targets**

(in billions of Korean Won, in millions of US dollars, in thousands of tires)

		1996		1997		1998		1999		2000		2001(E)	
		KRW	USD	KRW	USD	KRW	USD	KRW	USD	KRW	USD	KRW	USD
Sales	◆ Global	1,020	810	1,158	919	1,346	1,068	1,353	1,074	1,502	1,192	1,561	1,240
	HK	1,020	810	1,158	919	1,346	1,068	1,277	1,014	1,313	1,042	1,341	1,065
	China	-	-	-	-	-	-	76	60	189	150	220	175
Net Income	◆ Global	10	8	10	8	20	10	26	20	10	9	36	29
	HK	10	8	10	8	20	10	41	32	23	19	34	27
	China	-	-	-	-	-	-	(15)	(12)	(13)	(10)	2	2
Tire Sales Volume	◆ Global	23,914		26,962		26,798		33,797		36,474		39,488	
	HK	23,914		26,962		26,798		29,005		31,084		33,576	
	China							4,792		5,390		5,912	

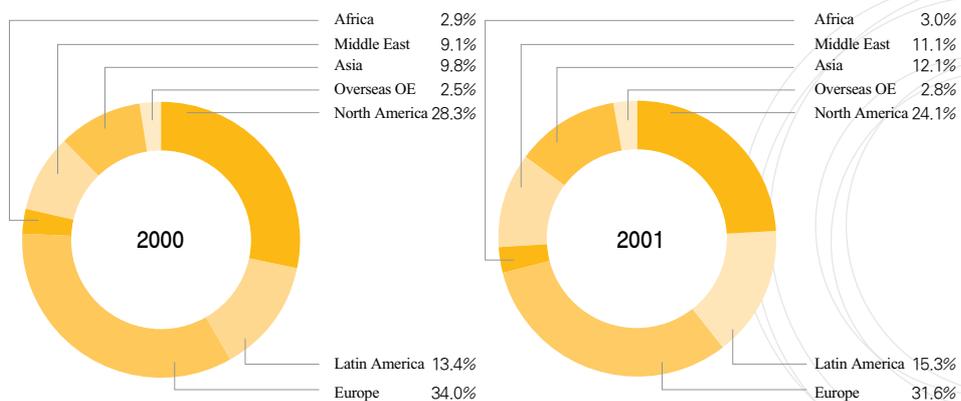
◆ Global : HK sales and China Plants (Jiaxing, Jiangsu)

**Relative Weight of Domestic Sales, Exports**

(%)

	1996	1997	1998	1999	2000	2001(E)
Domestic Sales	51.2	47.7	31.4	36.8	42.0	40.0
Exports	48.8	52.3	68.6	63.2	58.0	60.0

**Exports by Region**





# Business Strategies

## Domestic Sales Strategies

### Market Share

(%)

	Replacement		Original Equipment	
	2000	2001(E)	2000	2001(E)
Hankook Tire	47	49	43	44
Other companies	53	51	57	56

### Main Strategies

#### **Dominate the Domestic Market with a Solid Distribution Network**

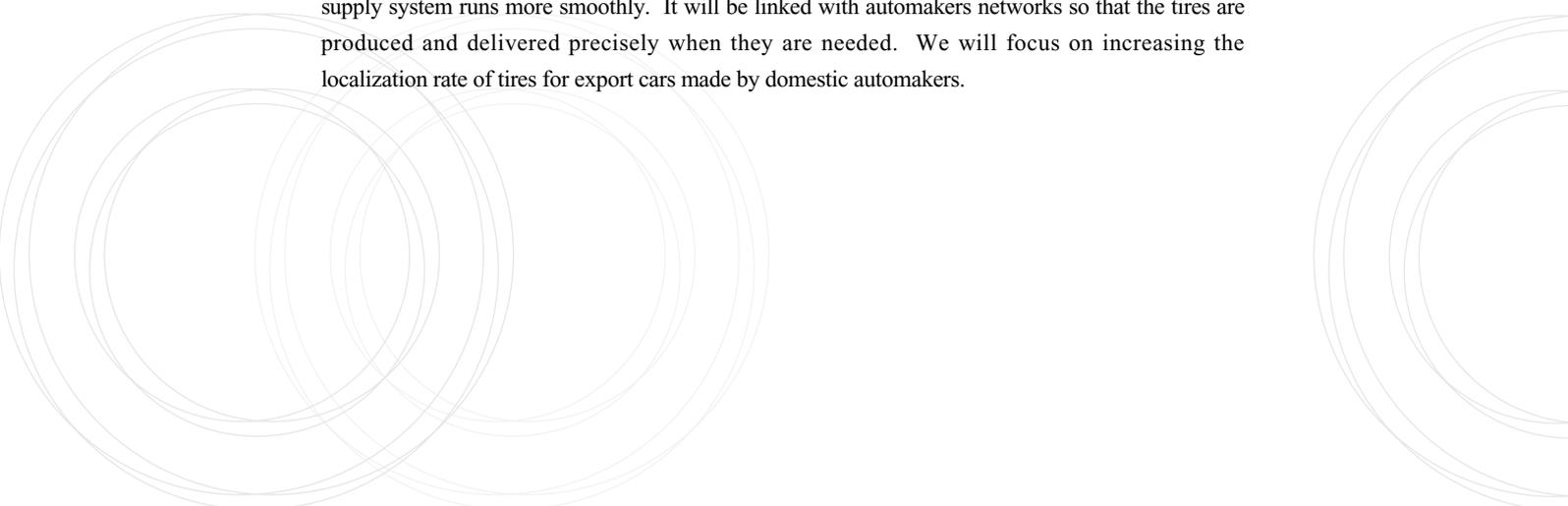
Hankook Tire will strengthen tire sales with the existing Korean wholesale and retail organizations as well as develop a strategic distribution organization in order to maintain its leading market position. Greater use of franchise shops will also increase the sale of strategic products.

#### **Maximize Profits**

Sales will be focused on value-added products to boost profitability. Operations will be trimmed to minimize inventory burdens, while retail prices and sales amounts per employee will be raised. New products will also be developed to improve profitability.

#### **Maintain and Increase OE Market Share**

Consistent product quality and shorter development time for new products will ensure that the supply system runs more smoothly. It will be linked with automakers networks so that the tires are produced and delivered precisely when they are needed. We will focus on increasing the localization rate of tires for export cars made by domestic automakers.





Overseas Sales Strategies

Overseas Sales Performance

(in millions of US dollars, Korean Won)

	1997	1998	1999	2000	2001(E)
Total Sales	579	649	610	585	656
Average annual exchange rate (per US dollar)	949.87	1,403.18	1,189.44	1,168.00	1,100.00

Main Overseas Offices



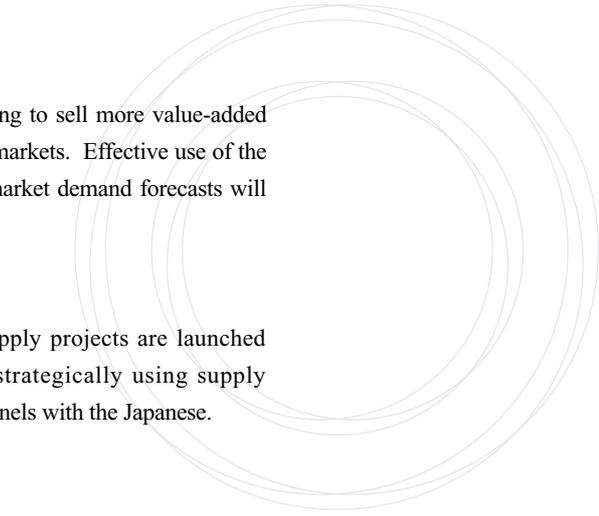
Main Strategies

**Aggressive Marketing to Differentiate Hankook Tire**

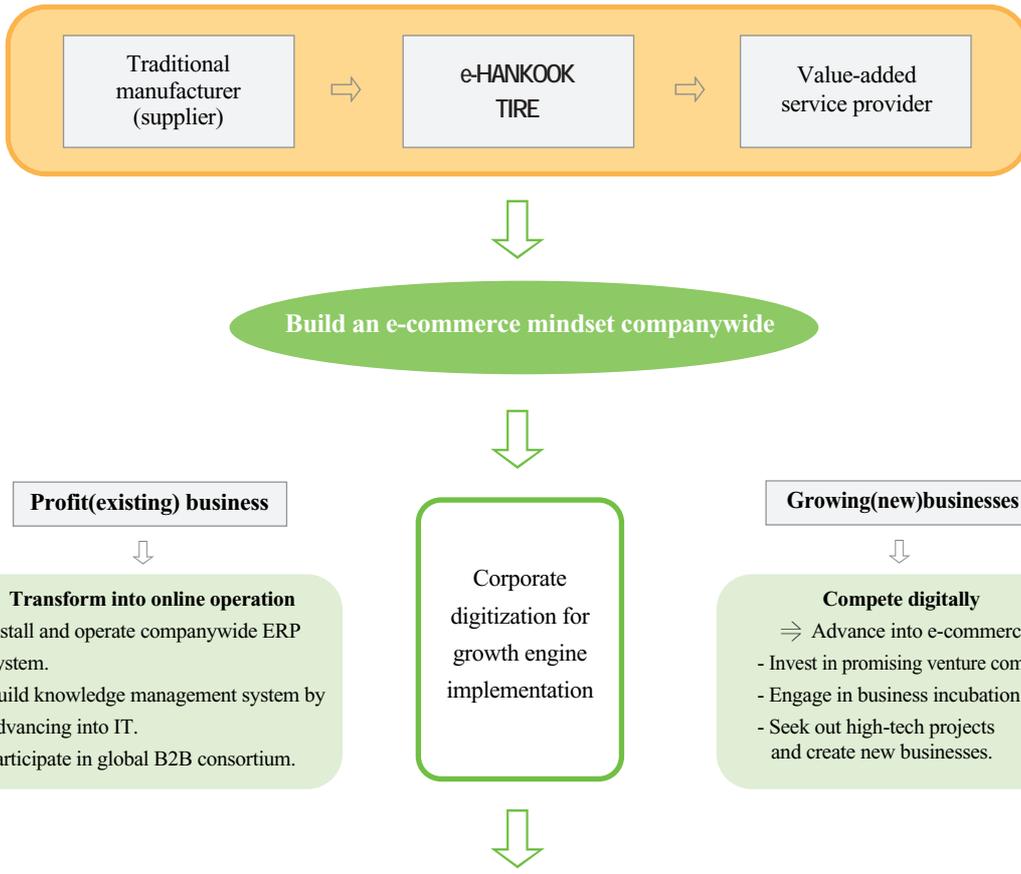
To boost sales performance and profitability, Hankook Tire is working to sell more value-added products and develop products optimally suited for specific overseas markets. Effective use of the Hankook brand, better responsiveness to market environments and market demand forecasts will improve overseas logistics.

**Strategic Use of Overseas OE Sales**

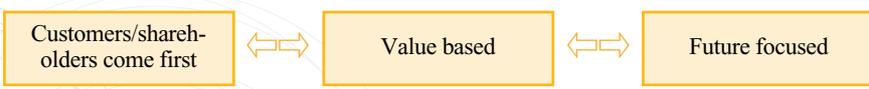
Hankook Tire is preparing well in advance to ensure that OE supply projects are launched successfully. An OE supply system will be implemented by strategically using supply arrangements with the major automakers and building OE supply channels with the Japanese.



# New Business Creation



• • • A company that provides trust and value to global customers. • • •



## Major New Products

- Nordik 3000:** Studless winter tires made with specialty rubber for driving up to 190km/hr (domestic market)
- Travan 3000:** High-end tire for vans, with improved ride comfort and durability (domestic market)
- RA 10 Radial:** Van/transporter tire with improved traction, excellent winter performance (European market)
- W602 Winter Radial:** Aurora brand studless winter tire (European market)



# Research & Development

## R&D Status



## R&D Network



## R&D Investment

(units: in billions of Korean Won, in millions of US dollars)

	1996		1997		1998		1999		2000		2001(E)	
	Korean won	US\$										
Investment	35	28	36	29	45	36	59	47	51	40	47	37
Percentage of sales	3.4%		3.1%		3.3%		4.6%		3.9%		3.5%	

## Major R&D Achievements

### New Product Development (20 patterns in 281 sizes)

- Passenger car radials: 7 patterns in 209 sizes
- Light truck radials: 8 patterns in 44 sizes
- Truck/Bus bias tires: 5 patterns in 28 sizes

### OE Advances

- Domestic: Approved for 43 standards
- Overseas: Approved for 13 standards (Daihatsu, Ford, etc.)

### New Technology Development

- Design: quieter, more wear-resistant patterns
- Materials: plant monitoring system
- Testing/evaluation: new noise assessment standardized
- Research: longer lasting belts for passenger car radials

### Cost Reduction

- Lightening weight for passenger car radials
- New cord for truck/bus radial carcass and belts

## Major New Products

**RA20 Radial:** Van/transporter tire with better durability, sold under Aurora brand (European market)

**Dynamic RH03:** SUV highway tire with improved wear resistance, open road performance (North American market)

**AL03 Radial:** All-wheel truck/bus tire for long-distance service, sold under Aurora brand (North American market)



# The Deungkurami Frontier

Deungkurami is a pioneering spirit that spans the entire world. Hankook Tire has established an operational strategy best suited for the global environment, laying the groundwork for head-to-head competition with the world's leading tiremakers. At the same time, we have adopted an aggressive marketing approach that focuses on local operations. Hankook Tire's rapid development has caught the attention of the entire world. We currently export tires to over 170 countries and supply our products to such world-leading automakers as Ford, Daihatsu, and Volkswagen.

In high-tech industries, one cannot expect any progress without technological expertise. With the perfect Deungkurami, Hankook Tire is standing tall on the world stage.



# Financial Statements

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## Report of Independent Accountants

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

We have audited the accompanying non-consolidated balance sheet of Hankook Tire Co., Ltd. (the "Company") as of December 31, 2000 and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended, expressed in Korean Won. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit. The financial statements of the Company for the year ended December 31, 1999 presented herein for comparative purposes, were audited by other auditors. In their report dated February 3, 2000, they expressed an unqualified opinion thereon.

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 the Company as of December 31, 2000, and the results of its operations, the changes in its retained earnings and its cash flows for the year then ended in conformity with financial accounting standards generally accepted in the Republic of Korea.

As discussed in Note 23 to the accompanying non-consolidated financial statements, in 2000, the Company entered into transactions with its subsidiaries and affiliated companies, including sales of ₩445,360 million and purchases of ₩80,160 million, in the normal course of business. Related receivables and payables at December 31, 2000 are ₩30,044 million and ₩18,241million, respectively. Also, as discussed in Note 15 to the accompanying non-consolidated financial statements, the Company has provided guarantees of ₩249,758 million with respect to financing by its subsidiaries and affiliated companies as of December 31, 2000.

As discussed in Notes 24 and 25 to the accompanying non-consolidated financial statements, the Company discontinued the operations of its Youngdeungpo Plant on April 30, 2000 and the production equipment held at the plant was relocated to other plants or disposed of. Also, the Company discontinued its tube manufacturing operations on July 1, 2000. The Company launched a housing construction business at the previous Youngdeungpo plant site, and recognized construction contract revenue of ₩37,383 million and construction contract costs of ₩36,243 million in 2000.



As discussed in Note 16 to the accompanying non-consolidated financial statements, the Company revalued a substantial portion of its property, plant and equipment on July 1, 2000 based primarily on the current replacement costs in accordance with the Asset Revaluation Law, which resulted in a revaluation increment of ₩187,420 million which increased revaluation surplus by ₩143,592 million after taxes and other items. Also, as discussed in Note 2 to the accompanying non-consolidated financial statements, the Company changed the estimated useful lives of certain property, plant and equipment to the useful lives assessed for the revaluation purposes, which increased 2000 depreciation expenses by ₩2,604 million.

As discussed in Note 27 to the accompanying non-consolidated financial statements, the Company issued its 70th non-guaranteed debentures with a face value of ₩30,000 million at ₩28,965 million on January 8, 2001. The Company decided to discontinue its manufacturing operations of Incheon Plant on February 1, 2001 in accordance with the "Incheon Plant Restructuring Plan" and will relocate and dispose all related property, plant and equipment.

Without qualifying our opinion, we draw attention to Note 15 of the accompanying non-consolidated financial statements. The operations of the Company have been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region. The ultimate effect of these significant 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.

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

The amounts expressed in U.S. Dollar are provided solely for the convenience of the reader and have been translated on the basis set forth in Note 3 to the accompanying non-consolidated financial statements.

*Samil Accounting Corporation*

Seoul, Korea  
February 3, 2001

# Non-Consolidated Balance Sheets

December 31, 2000 and 1999

In Thousands

	Korean Won		U.S. dollars (note 3)	
	2000	1999	2000	1999
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents (Notes 4 and 6)	₩ 6,778,015	₩ 30,426,619	US\$ 5,381	US\$ 24,154
Short-term financial instruments (Notes 4 and 6)	69,143,926	109,031,720	54,889	86,554
Marketable securities (Note 9)	-	13,355,325	-	10,602
Trade accounts and notes receivable, net (Notes 5 and 6)	174,977,472	217,360,193	138,904	172,549
Short-term loans, net (Note 8)	1,531,403	304,291	1,216	242
Inventories (Note 7)	230,443,473	122,305,445	182,935	97,091
Other accounts receivable (Note 6)	16,353,176	16,791,901	12,982	13,330
Accrued income	15,971,875	16,251,427	12,679	12,900
Advance payments	19,530,937	-	15,504	-
Other current assets	14,259,550	15,834,173	11,320	12,570
<b>Total current assets</b>	<b>548,989,827</b>	<b>541,661,094</b>	<b>435,810</b>	<b>429,992</b>
Property, plant and equipment, net (Notes 10 and 13)	1,212,841,294	1,033,156,386	962,802	820,161
Long-term financial instruments (Note 4)	27,000	106,660,407	21	84,671
Investments (Note 9)	148,664,118	182,683,658	118,015	145,022
Long-term loans, net (Note 8)	1,996,682	4,509,995	1,585	3,580
Non-current guarantee deposits	4,802,316	4,029,798	3,812	3,199
Long-term other accounts receivable	8,990,839	3,063,898	7,137	2,432
Deferred tax assets (Note 20)	21,033,261	18,567,883	16,697	14,740
Intangible assets	372,588	336,806	297	267
	<b>₩ 1,947,717,925</b>	<b>₩ 1,894,669,925</b>	<b>US\$ 1,546,176</b>	<b>US\$ 1,504,064</b>

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



In Thousands

	Korean Won		U.S. dollars (note 3)	
	2000	1999	2000	1999
<b>Liabilities and Stockholders Equity</b>				
Current liabilities:				
Short-term borrowings (Notes 6 and 11)	₩ 206,718,856	₩ 275,716,686	US\$ 164,102	US\$ 218,875
Current maturities of long-term debt (Notes 11 and 12)	150,065,053	114,206,349	119,128	90,662
Trade accounts and notes payable (Note 6)	102,996,877	154,164,718	81,763	122,382
Other accounts payable (Note 6)	74,343,941	78,298,362	59,017	62,156
Advances received	42,683,304	1,911,498	33,884	1,517
Dividend payable	8,705,559	7,235,966	6,911	5,744
Accrued expenses (Note 6)	15,248,278	15,290,382	12,105	12,138
Income taxes payable (Note 20)	3,929,983	20,508,244	3,120	16,280
Current guarantee deposit	20,312,052	17,724,843	16,124	14,071
Other current liabilities	4,651,120	3,106,029	3,691	2,466
<b>Total current liabilities</b>	<b>629,655,023</b>	<b>688,163,077</b>	<b>499,845</b>	<b>546,291</b>
Debentures, less current maturities and discounts on debentures (Note 12)	224,751,042	198,078,431	178,416	157,243
Convertible bonds, less current maturities and discounts (Notes 6 and 12)	6,362,547	10,209,344	5,051	8,105
Long-term debt, less current maturities (Notes 6 and 13)	148,665,797	164,867,022	118,017	130,878
Long-term other payable (Notes 6 and 13)	5,821,466	8,472,742	4,621	6,726
Accrued severance benefits, net (Note 14)	10,520,525	35,496,135	8,352	28,178
<b>Total liabilities</b>	<b>1,025,776,400</b>	<b>1,105,286,751</b>	<b>814,302</b>	<b>877,421</b>
Commitments and contingencies (Note 15)				
Shareholders' equity :				
Common stock	74,530,449	72,359,659	59,165	57,442
Capital surplus				
Paid in capital in excess of par	90,337,906	90,355,899	71,714	71,728
Revaluation surplus (Note 16)	459,490,464	315,898,251	364,762	250,773
Other capital reserve	51,778,005	10,957,930	41,104	8,699
Retained earnings (Note 17)	218,200,416	204,667,050	173,216	162,473
Capital adjustments (Note 19)	27,604,285	95,144,385	21,913	75,528
<b>Total shareholders' equity</b>	<b>921,941,525</b>	<b>789,383,174</b>	<b>731,874</b>	<b>626,643</b>
	<b>₩ 1,947,717,925</b>	<b>₩ 1,894,669,925</b>	<b>US\$ 1,546,176</b>	<b>US\$ 1,504,064</b>

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

# Non-Consolidated Income Statements

For the years ended December 31, 2000 and 1999

In thousands except for per share amount

	Korean Won		U.S. dollars (note 3)	
	2000	1999	2000	1999
Sales (Notes 23 and 25)	₩ 1,312,725,252	₩ 1,277,250,426	US\$ 1,042,093	US\$ 1,013,932
Cost of sales	948,660,494	882,539,481	753,084	700,595
Gross profit	364,064,758	394,710,945	289,009	313,337
Selling and administrative expenses	257,739,772	268,034,214	204,604	212,776
Operating income	106,324,986	126,676,731	84,405	100,561
Non-operating income:				
Interest income	20,474,935	25,865,601	16,254	20,533
Foreign exchange gains	19,840,513	25,963,572	15,750	20,611
Gain on foreign currency translation	3,434,332	9,127,205	2,726	7,246
Gain on disposition of property, plant and equipment	4,467,960	1,115,257	3,547	885
Gain on valuation of marketable securities	-	352,166	-	280
Gain on disposition of investments	-	27,487	-	22
Recovery of impairment loss on investment securities	-	97,350	-	77
Royalty fee income	9,296,541	3,226,109	7,380	2,561
Rental income	2,317,565	1,904,677	1,840	1,512
Refund of income taxes	-	525,388	-	417
Reversal of allowance for doubtful accounts	727,838	1,047,317	578	831
Currency forward transaction gains	5,060,376	5,891,598	4,017	4,677
Gain on valuation of currency forward	2,230,969	1,153,974	1,771	916
Other	6,174,098	7,551,803	4,900	5,995
	74,025,127	83,849,504	58,763	66,563
Non-operating expenses:				
Interest expenses	57,966,945	95,353,167	46,016	75,695
Foreign exchange losses	21,170,459	28,330,444	16,806	22,490
Loss on foreign currency translation	16,109,524	3,528,709	12,788	2,801
Loss on disposition of marketale securities	53,993	-	43	-
Loss on disposition of investments	23,097	4,058,823	18	3,222
Loss on disposition of property, plant and equipment	10,430,008	1,551,956	8,280	1,232
Loss on sales of accounts receivable	14,712,871	-	11,680	-
Loss on valuation of equity method investees	3,015,615	9,569,367	2,394	7,597
Impairment loss on investment securities	-	662,816	-	526
Donations	189,702	2,186,167	151	1,735
Loss on redemption of debentures	7,476,188	1,131,778	5,935	898
Additional payment of income taxes	6,451,173	-	5,121	-
Currency forward transaction losses	5,335,072	2,644,859	4,235	2,100
Loss on valuation of currency forward	2,674,648	64,046	2,123	51
Other	1,171,987	1,941,018	930	1,541
	146,781,282	151,023,150	116,520	119,888
Ordinary income	33,568,831	59,503,085	26,648	47,236
Extraordinary gains	-	-	-	-
Extraordinary losses	-	-	-	-
Income before income taxes	33,568,831	59,503,085	26,648	47,236
Income tax expenses (Note 20)	10,246,773	18,603,644	8,134	14,768
Net income	23,322,058	40,899,441	18,514	32,468
Earning per share (in Won and U.S. Dollar)				
Basic (Ordinary) income per share (in Won and U.S.Dollar) (Note 21)	160	276	0.13	0.22
Diluted (Ordinary) income per share (in Won and U.S.Dollar) (Note 21)	₩ 158	₩ 268	US\$ 0.13	US\$ 0.21

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, 2000 and 1999  
Date of appropriations : March 16, 2001 for 2000 and March 17, 2000 for 1999

	In Thousands			
	Korea Won		U.S. dollars (note 3)	
	2000	1999	2000	1999
Retained earnings before appropriations				
Unappropriated retained earnings carried forward from prior year	₩ 10,604,383	₩ 5,662,331	US\$ 8,418	US\$ 4,495
Changes in retained earnings under equity method accounting	(1,085,037)	-	(861)	-
Cumulative effect on retroactive application of accounting changes (Note 17)	-	(5,770,633)	-	(4,581)
Net income for the year	23,322,058	40,899,441	18,514	32,468
	<b>32,841,404</b>	<b>40,791,139</b>	<b>26,071</b>	<b>32,382</b>
Transfer from voluntary reserve				
Reserve for technological development	610,000	600,000	484	476
Reserve for export loss	476,666	310,000	378	246
Reserve for overseas market development	1,210,000	310,000	961	246
	<b>2,296,666</b>	<b>1,220,000</b>	<b>1,823</b>	<b>968</b>
Appropriations of retained earnings				
Legal reserve	3,000,000	4,000,000	2,382	3,175
Reserve for business rationalization	4,000,000	4,000,000	3,175	3,175
Reserve for dividend equalization	4,000,000	6,000,000	3,175	4,763
Reserves for the retirement benefits of directors	1,500,000	2,000,000	1,192	1,588
Voluntary reserves	4,000,000	6,000,000	3,175	4,764
Dividends (Note 18)				
Cash dividends	8,703,654	7,235,966	6,909	5,744
Stock dividends	-	2,170,790	-	1,723
	<b>25,203,654</b>	<b>31,406,756</b>	<b>20,008</b>	<b>24,932</b>
Unappropriated retained earnings to be carried-forward to subsequent year	₩ 9,934,416	₩ 10,604,383	US\$ 7,886	US\$ 8,418

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, 2000 and 1999

In Thousands

	Korea Won		U.S. dollars (note 3)	
	2000	1999	2000	1999
<b>Cash flows from operating activities:</b>				
Net Income	₩ 23,322,058	₩ 40,899,441	US\$ 18,514	US\$ 32,468
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	130,027,712	129,629,148	103,221	102,905
Provision for severance benefits	22,882,210	21,460,624	18,165	17,036
Loss on disposition of marketable and investment securities, net	77,090	4,031,336	61	3,200
Amortization of intangible assets	131,848	158,735	105	126
Loss on disposition of property, plant and equipment, net	5,962,048	436,699	4,733	347
Loss (gain) on foreign currency translation, net	12,675,192	(5,564,297)	10,062	(4,417)
Loss on redemption of debentures	7,476,188	1,131,778	5,935	898
Amortization of discount on debentures, net	4,080,227	3,635,792	3,239	2,886
Loss on sales of accounts receivable	907,512	-	720	-
Loss on valuation of equity method investees	3,015,615	9,569,397	2,394	7,597
Loss on valuation of investment securities, net	95,167	565,436	76	449
Currency forward transaction loss (gain), net	274,697	(3,246,739)	218	(2,577)
Loss (gain) on valuation of currency forward, net	443,679	(1,089,928)	352	(865)
Gain on valuation of marketable securities	-	(352,166)	-	(280)
Decrease (increase) in trade and other accounts and notes receivable, net	42,449,697	(13,665,074)	33,698	(10,848)
Increase in inventories	(4,292,210)	(19,408,725)	(3,407)	(15,407)
Decrease (increase) in accrued income	279,552	(7,296,827)	222	(5,793)
Increase in advance payments	(19,530,937)	-	(15,504)	-
Decrease in other current assets	856,250	434,642	680	345
Decrease (increase) in long-term other accounts receivable	(5,926,942)	11,177,375	(4,705)	8,873
Increase in deferred income tax assets	(2,465,378)	(4,710,313)	(1,957)	(3,739)
Decrease (increase) in trade and other accounts and notes payable, net	(60,999,596)	83,666,231	(48,424)	66,418
Increase (decrease) in advances received	40,771,805	(9,061,435)	32,366	(7,193)
Increase in guarantee deposit	2,587,210	3,082,529	2,054	2,447
Decrease in accrued expenses	(42,105)	(1,765,310)	(33)	(1,401)
Increase (decrease) in income taxes payable	(16,578,261)	12,268,920	(13,160)	9,740
Increase (decrease) in other current liabilities	(1,507,391)	921,768	(1,199)	730
Accrued severance benefits transferred from affiliated company	-	84,032	-	67
Payment of severance benefits	(29,459,333)	(10,760,422)	(23,386)	(8,542)
Increase (decrease) in contribution to national pension fund	1,580,595	(221,381)	1,255	(176)
Net cash provided by operating activities	₩ 159,094,199	₩ 246,011,266	US\$ 126,295	US\$ 195,294

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



In Thousands

	Korea Won		U.S. dollars (note 3)	
	2000	1999	2000	1999
<b>Cash flows from investing activities:</b>				
Proceeds from disposal of marketable securities	₩ 13,301,332	₩ -	US\$ 10,559	US\$ -
Decrease in short-term financial instruments	42,786,364	34,835,748	33,966	27,654
Acquisition of marketable securities	-	(13,003,158)	-	(10,322)
Net decrease (increase) in short-term loans	(10,715)	378,957	(9)	301
Net decrease in long-term financial instruments	106,633,407	8,683,288	84,650	6,893
Disposal of investment securities	568,772	4,712,883	452	3,741
Acquisition of investments	(17,732,841)	(43,540,428)	(14,077)	(34,564)
Dividend distribution from equity method investees	142,434	257,667	113	205
Decrease in long term loans, net	1,586,178	1,829,244	1,258	1,451
Decrease (increase) in non-current guarantee deposits, net	(772,518)	606,132	(613)	481
Proceeds from disposal of property, plant and equipment	14,360,202	5,076,543	11,400	4,030
Acquisition of property, plant and equipment	(246,460,200)	(152,013,486)	(195,650)	(120,674)
Increase in severance insurance deposit, net	(19,979,083)	(64,482,268)	(15,860)	(51,189)
Increase in intangible assets	(167,630)	(268,735)	(133)	(213)
<b>Net cash used in investing activities</b>	<b>(105,744,298)</b>	<b>(216,927,613)</b>	<b>(83,944)</b>	<b>(172,206)</b>
<b>Cash flows from financing activities:</b>				
Net decrease in short-term borrowings	(74,488,585)	(10,649,472)	(59,132)	(8,454)
Repayment of current maturities of long-term debt	(113,757,003)	(154,398,558)	(90,305)	(122,568)
Payment of dividends	(7,234,061)	(331,717)	(5,743)	(263)
Acquisition of treasury stock	(10,320,362)	-	(8,193)	-
Proceeds from disposition of treasury stock	-	11,785,764	-	9,356
Increase in long-term debt	72,867,158	44,557,560	57,845	35,372
Repayment of debentures	120,868,531	165,441,261	95,950	131,334
Early repayment of debentures, convertible bonds, and other long term debt	(64,916,190)	(66,592,522)	(51,532)	(52,865)
Stock issuance costs	(17,993)	(78,152)	(14)	(62)
<b>Net cash used in financing activities</b>	<b>(76,998,505)</b>	<b>(10,265,836)</b>	<b>(61,124)</b>	<b>(8,150)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(23,648,604)</b>	<b>18,817,817</b>	<b>(18,773)</b>	<b>14,938</b>
Cash and cash equivalents at beginning of year (Note 26)	30,426,619	11,608,802	24,154	9,216
<b>Cash and cash equivalents at end of year (Note 26)</b>	<b>₩ 6,778,015</b>	<b>₩ 30,426,619</b>	<b>US\$ 5,381</b>	<b>US\$ 24,154</b>

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

# Notes to Non-Consolidated Financial Statements

December 31, 2000 and 1999

## 1. The Company

Hankook Tire Co., Ltd. (the "Company") was incorporated in 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. In March 1999, the Company changed its name from Hankook Tire Manufacturing Co., Ltd. to Hankook Tire Co., Ltd. In 2000, the Company launched the housing construction business.

The authorized number of the Company's common shares of the Company is 250,000,000, with a par value of ₩500. At December 31, 2000, issued and outstanding common shares of the Company are 149,060,897 shares.

The Company's shareholders as of December 31, 2000 and 1999 are as follows:

	2000		1999	
	Number of Shares Owned	Ownership Ratio(%)	Number of Shares Owned	Ownership Ratio(%)
Cho, Yang Rae	23,808,097	16.0	23,114,658	16.0
Cho, Hyun Beom	10,798,251	7.2	10,483,739	7.2
Cho, Hyun Sik	8,607,786	5.8	8,357,074	5.8
Cho, Hue Won	5,306,184	3.5	5,151,635	3.6
Cho, Hue Kyung	4,040,114	2.7	3,922,441	2.7
Others	96,500,465	64.8	93,689,771	64.7
	<b>149,060,897</b>	<b>100.0</b>	<b>144,719,318</b>	<b>100.0</b>

Changes in common stock for the years ended December 31, 2000 and 1999 are as follows:

		Millions of Won	
		Number of Shares issued	Paid in Capital
Jan. 1, 1999	Beginning balances	67,049,990	33,525
Jan. 1, 1999	Stock dividends	1,990,929	995
May 24, 1999	Issuance of free shares	69,040,289	34,520
May 24, 1999	Issuance of new shares for cash	6,638,110	3,319
Dec. 31, 1999	<b>Total</b>	<b>144,719,318</b>	<b>72,359</b>
Jan. 1, 2000	Stock dividends	4,341,579	2,171
Dec. 31, 2000	<b>Total</b>	<b>149,060,897</b>	<b>74,530</b>

## 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 official accounting records of the Company are maintained in Korean Won in accordance with the laws and regulations of the Republic of Korea. The non-consolidated financial statements are prepared in accordance with generally accepted financial accounting standards of the Republic of Korea.

The accompanying non-consolidated financial statements have been extracted from the Company's Korean language non-consolidated financial statements that were prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of Korea. These standards vary from International Accounting Standards and the accounting principles generally accepted in the country of the reader. The non-consolidated financial statements have been translated from Korean into English, and have been formatted in a manner different from the presentation under Korean financial statement practices. Certain supplementary information included in the Korean language statutory financial statements, but not required for a fair presentation of the Company's financial position or results of operations, is not presented in the accompanying non-consolidated financial statements. Accordingly, the accompanying non-consolidated financial statements are not intended to present the non-consolidated financial position, results of operations and cash flows in accordance with accounting principle and practices generally accepted in countries and jurisdictions other than Korea.

The preparation of 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 products or merchandise are recognized upon delivery to the customer. Housing construction contract revenues are recognized using the percentage of completion method.

### **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, cost being determined using the following methods:

Merchandise, finished goods and work in process	: Weighted average method
Raw materials 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.

### **Marketable Securities, Investments in Affiliates and Other Investments**

Marketable securities had for short term cash management purposes are stated at market and valuation gains or losses are recorded in current operations.

Investments in non-marketable equity securities of non-controlled investees are carried 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, when are recorded as valuation losses in current operations.

Investments in equity securities of companies over which the Company exercises significant control or influence are recorded using the equity method. Differences between the purchase cost and net book value of the investee are amortized over five years using the straight-line method. Under the equity method, the Company records changes in its proportionate equity of the book value of the investee as current operations, capital adjustments or adjustments to retained earnings, according to the corresponding changes in book value of the investee.

Other investments in debt securities are carried at fair value. Temporary differences between fair value and amortized cost are accounted for in the capital adjustment account. 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. Subsequent recoveries or other future changes in fair value are recorded in the capital adjustment account.

Investments in debt securities which the Company has the intent and ability to hold to maturity are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the life of the debt using the effective interest method. Declines in the fair value of debt securities which are anticipated to be permanent are recorded as valuation losses in current operations.

#### 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. Such revaluation represents property, plant and equipment at their depreciated replacement cost as of the effective date of revaluation, July 1, 2000. The revaluation increment, net of 3% tax, is first applied to offset accumulated deficit, if any, and the remainder may either be credited to capital surplus or transferred to common stock. In connection with the revaluation, a new basis for depreciation is established for revalued assets. Also, the Company changed its useful lives for certain property, plant and equipment to conform to the useful lives assessed in the course of the revaluation, which increased 2000 depreciation expenses by ₩2,604 million.

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	2 ~ 60 years
Structures	2 ~ 40 "
Machinery and equipment	2 ~ 15 "
Tools, furniture and fixtures	2 ~ 09 "
Vehicles	2 ~ 09 "

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 facilities involved are capitalized as additions to property, plant and equipment.

Costs of assets sold, retired or abandoned, and the related accumulated depreciation are eliminated from the accounts and resulting gains or losses are included in operations in the year of disposition.

Interest costs incurred in connection with the purchase or construction of property, plant and equipment are capitalized as cost of such assets. Interest cost capitalized in 2000 and 1999 are ₩14,679 million and ₩4,219 million, respectively.

#### Intangible Assets

Intangible assets, comprising industrial property rights are recorded at cost and amortized using the straight-line method over their five to twenty year economic lives.



### **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 (₩1,259.7 : US\$ 1 as of December 31, 2000 and ₩1,145.4 : US\$ 1 as of December 31, 1999), and resulting translation gains or losses are recognized currently.

### **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 were to terminate their employment as of the balance sheet date.

The Company has 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 balance sheet are presented net of this deposit.

Accrued severance benefits are funded approximately 82.6% as of December 31, 2000, through a group severance insurance plan and are presented as deduction from accrued severance benefits.

### **Discount on Debentures**

Discounts on debentures are amortized using the effective interest rate method over the repayment term of the debentures. Amortization of these discounts is included in interest expense.

### **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 operations in the period when underlying transactions have effect on operations.

### **Income Taxes**

The Company accounts for income taxes under the Financial Accounting Standards, which requires the recognition of deferred tax assets and liabilities arising from temporary differences between the financial and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be reversed or settled.

Tax credits for investment, development of technology and manpower, and other tax credits are recognized as a reduction of income tax expense in the year they are incurred for tax purposes.

### **Sales or Discount of Accounts Receivable**

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

### **Restructuring of Receivables**

The Company recognized losses on troubled receivables restructured under the work-out plans or other similar rescheduling agreements if the total discounted future cash receipts specified by the modified terms of rescheduled receivables are less than the nominal amount of the troubled receivables.

The discount rate applied in evaluating the present value of the receivable is the appropriate discount rate prevailing at the transaction date.

**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 the significant declines in market value are recorded in current operations.

**Lease Transactions**

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreement. Machinery and equipment acquired under capital lease agreements are recorded at cost as property, plant and equipment and depreciated using the straight-line method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under capital leases, net of accrued interest. 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.

**Present Value Discount Account**

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 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.

The present value discount account is amortized using the effective interest rate method as interest expense or interest income.

**Reclassification of 1999 Financial Statement**

Certain amounts in the 1999 non-consolidated financial statements have been reclassified to conform to the 2000 presentation. These reclassifications have had no effect on previously reported net income or retained earnings.

**Significant Changes in Financial Accounting Standards in 1999**

The Company adopted the revised Financial Accounting Standards in the Republic of Korea effective January 1, 1999. Pursuant to the provision of the revised Financial Accounting Standards, the Company recognized deferred income taxes, adopted the equity method of accounting for investments in equity securities of affiliated companies over which the Company can exercise significant influence, and charged research cost to expense. The cumulative effect on assets and liabilities arising from adoption of revised standards were adjusted to beginning retained earnings or capital adjustments in the 1999 financial statements (see Note 16).

### 3. United States Dollar Amounts

The Company operates primarily in Korean Won and its official accounting records are maintained in Korean Won. The U.S. Dollar amounts are provided herein as supplementary information solely for the convenience of the readers. Won amounts are expressed in U.S. Dollars at the rate of ₩1,259.7:US\$1.00, the rate in effect on December 31, 2000. This presentation is not in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the Won amounts shown could be converted, realized or settled in U.S. Dollars at this rate.

The 1999 U.S. dollar amounts, which were previously expressed at ₩1,145.4:US\$1, the rate prevailing on December 31, 1999, have been restated to reflect the exchange rate in effect on December 31, 2000.

### 4. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2000 and 1999 comprise the following:

	Annual Interest Rates (%)	Millions of Won	
	2000.12.31	2000	1999
<u>Cash and cash equivalents:</u>			
Cash on hands	-	₩ 4	₩ 32
MMDA	-	-	26,235
Passbook accounts and other	1.0 - 4.0	6,774	4,160
		6,778	30,427
<u>Short-term financial instruments:</u>			
Installment deposits	-	-	1,048
Time deposits	7.75 - 8.50	15,300	14,335
Time deposits denominated in F.C.	5.71 - 6.50	31,744	73,649
Other	7.22 - 7.59	22,100	20,000
		69,144	109,032
<u>Long-term financial instruments:</u>			
Key money deposit for checking accounts	1.0	27	27
Long-term deposits	-	-	33,107
Group severance insurance deposits	-	-	73,526
		27	106,660
		<b>₩75,949</b>	<b>₩ 246,119</b>

At December 31, 2000, short-term financial instruments amounting ₩44,044 million and long-term financial instruments are pledged as collateral for borrowings or opening checking accounts (see Notes 11 and 12). Withdrawal of these deposits is restricted.

## 5. Trade Accounts and Notes Receivable

Trade accounts and notes receivable at December 31, 2000 and 1999 comprise the following:

	Millions of Won					
	2000			1999		
	Receivable	Allowance for doubtful accounts	Net balance	Receivable	Allowance for doubtful accounts	Net balance
Trade Receivable						
Accounts receivable	₩ 127,312	₩ 2,574	₩ 124,738	₩ 132,809	₩ 1,747	₩131,062
Notes receivable	51,018	779	50,239	87,804	1,506	86,298
	<b>178,330</b>	<b>3,353</b>	<b>174,977</b>	<b>220,613</b>	<b>3,253</b>	<b>217,360</b>
Dishonored notes	11,104	2,113	8,991	4,714	1,649	3,065
Other accounts receivable	16,358	5	16,353	16,796	4	16,792
	<b>₩ 205,792</b>	<b>₩ 5,471</b>	<b>₩ 200,321</b>	<b>₩ 242,123</b>	<b>₩ 4,906</b>	<b>₩237,217</b>

As of December 31, 2000, the Company's accounts receivable and notes receivable from Daewoo Motor Company, a customer which filed for corporate reorganization in November 2000 under the Company Reorganization Act in Korea are ₩10,566 million. The Company accrued ₩4,226 million of allowance for doubtful accounts relating to Daewoo Motor Company as of December 31, 2000. Also, the Company has discounted and sold notes receivable, which were issued by Daewoo Motor Company, with recourse, of which outstanding balance as of December 31, 2000 amount to ₩1,872 million. The collectibility of the Company's accounts receivable is subject to the court's ruling on the corporate reorganization of the customer and other factors.

## 6. Monetary Assets and Liabilities Denominated in Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies at December 31, 2000 and 1999 are as follows:

	In thousands of F.C.		In millions of Won	
	2000	1999	2000	1999
<b>Assets</b>				
Cash and Cash equivalents	USD -	USD 3,000	₩ -	₩ 3,426
Short-term financial instruments	USD 25,200	USD 64,300	31,745	73,649
Trade accounts receivable	USD 36,614	USD 40,415	46,123	46,292
			₩ 77,868	₩ 123,367
<b>Liabilities</b>				
Trade accounts payable	USD 67,751	USD 66,365	₩ 82,827	₩ 76,015
	JPY 5,340	JPY 18,926	59	1,425
	DEM 80	DEM 2,466	49	238
	GBP 13	AUD 77	24	57
	AUD 39	NZD 45	28	27
		EUR 11	-	13
			82,987	77,775
Short term borrowings	USD 49,250	USD 49,155	62,040	56,302
	JPY 199,809	JPY 225,619	2,201	2,531
	DEM 3,162	DEM 1,433	1,919	843
			66,160	59,676
Convertible bonds(*)	USD 11,000	USD 21,700	8,556	16,878
Long-term borrowings(**)	USD 52,191	USD 80,021	65,745	91,657
Long-term payables(**)	USD 7,397	USD 9,997	9,318	11,451
			₩ 232,766	₩ 257,437

(\*) In accordance with generally accepted financial accounting standards in the Republic of Korea, foreign currency denominated convertible bonds are translated into Korean Won using the historical exchange rates.

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

## 7. Inventories

Inventories at December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Merchandise	₩ 12,548	₩7,540
Finished goods	74,681	66,841
Work in process	7,466	5,411
Raw materials	6,471	7,248
Sub material	2,410	2,920
Supplies	2,085	1,987
Materials in transit	36,567	30,358
Lands for construction contracts(*)	88,215	-
	<b>₩230,443</b>	<b>₩122,305</b>

(\*)Lands for construction contracts represents the cost of lands not transferred to cumulative construction contract costs recognized using the percentage of completion method.

At December 31, 2000, inventories are insured against fire and other casualty losses up to ₩84,300 million.

## 8. Short-Term and Long-Term Loans

Short-term and long-term loans at December 31, 2000 and 1999 comprise the following

	Annual Interest Rates (%)	Millions of Won	
		2000	1999
<b>Short-term loans</b>			
Housing loans to employees	3.0	₩1,605	₩ 323
Less : Discount for present value		(74)	(19)
		<b>₩1,531</b>	<b>₩ 304</b>
<b>Long-term loans</b>			
Housing loans to employees	3.0	₩2,390	₩5,247
Less : Discount for present value		(393)	(737)
		<b>₩1,997</b>	<b>₩4,510</b>

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

## 9. Marketable Securities and Investment Securities

Investment securities at December 31, 2000 and 1999 are as follows:

	Millions of Won									
	Shares owned by the Company (in thousand)		Ownership Ratio(%)		Acquisition Cost		Market or Net asset value		Carrying Book Value	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
<b>Investment in non-marketable equity securities:</b>										
The Korea Economic Daily	55	55	0.51	0.51	₩297	₩297	₩361	₩361	₩297	₩297
Shinsegi Telecom	175	175	0.17	0.17	877	877	569	546	877	877
Wireless Data Communication	50	50	0.60	0.60	800	800	171	137	137	137
Jasperauto Corp.	106	-	3.43	-	200	-	72	-	200	-
K-Zone international co., Ltd.	6	-	2.44	-	200	-	21	-	200	-
Power Comm	100	-	0.07	-	3,500	-	535	-	3,500	-
Wasol Co., Ltd (*2)	10	-	4.17	-	200	-	200	-	200	-
EmFrontier Inc	2,000	-	50.00	-	1,000	-	1,148	-	1,000	-
Cash Office	-	-	-	-	18	18	18	18	18	18
Stock Market Stabilization Fund	-	-	-	-	1,665	1,665	543	1,095	543	1,095
Others (*2)	-	-	-	-	508	333	508	333	508	333
<b>Investments in marketable equity securities:</b>										
KT Freetel & M.com	232	232	0.17	0.17	1,792	1,792	7,613	65,933	7,613	65,933
<b>Investments in subsidiaries carried at equity (*1) :</b>										
Korea Storage Battery, Ltd.	2,849	2,849	31.13	31.13	12,230	12,230	18,730	16,991	18,730	16,991
Daehwa Eng' & Machinery Co., Ltd.	380	380	95.00	95.00	1,900	1,900	-	-	-	-
	2,200	2,200	73.33	73.33	11,000	11,000	7,750	7,023	7,750	7,023
ASA Co., Ltd.	1	1	100.00	100.00	2,340	2,340	5,819	2,441	5,819	2,441
Hankook Tire America Corp.	25	25	100.00	100.00	31	31	-	-	-	-
Hankook Tire U.K. Ltd.	25	25	82.98	88.86	48,158	48,158	37,720	38,111	37,720	38,111
Jiansu Hankook Tire Co., Ltd.	50	50	97.03	96.44	60,756	49,518	63,552	49,428	63,552	49,428
Hankook Tire Jiaxing Co., Ltd.			100.00	100.00	1,104	18	-	-	-	-
Hankook Tire Netherlands B.V.	50	50	100.00	100.00	31	31	-	-	-	-
Hankook Tire Canada Corp.	0.4	0.4	100.00	100.00	165	165	-	-	-	-
Hankook Tire Japan Corp.										
Hankook Reifen Deutschland GmbH			100.00	100.00	127	127	-	-	-	-
Hankook Tire France SARL			100.00	100.00	259	259	-	-	-	-
					₩149,158	₩131,559	₩145,330	₩182,417	₩148,664	₩182,684



(\*1) The equity method of accounting is applied based on the affiliates' recent financial information available, some of which have not been audited or reviewed.

(\*2) Certain investments in non-marketable equity securities in which the Company holds 20% or more interests in the investees have been recorded at cost if total assets of each investee is less than ₩7 billion and differences between investments using the equity and cost accounting method are not significant, or if the Company's ability or intention to exercise influence is determined to be temporary.

Details of changes in investments in equity-method investees in 2000 are as follows:

<b>Millions of Won</b>				
	<b>Capital adjustments</b>	<b>Retained earnings</b>	<b>Net income (loss)</b>	<b>Total</b>
Acquisition costs				₩126,317
Adjustment :	₩ 11,498	₩ -	₩ -	11,498
Changes in capital adjustment	-	-	(3,652)	(3,652)
Net income	-	-	814	814
Elimination of unrealized Gains or losses				
Adjustment for differences between the investment account and corresponding capital accounts	-	-	(177)	(177)
Dividend income	-	-	(143)	(143)
Others	-	(1,085)	-	(1,085)
				<b>₩133,572</b>

40,000 shares of KT Freetel & M.com were provided to KT Freetel & M.com as collateral related to the Company's agency contracts.

Marketable securities as of December 31, 1999 represents beneficiary certificates which are carried at fair value.

## 10. Property, Plant and Equipment

Property, plant and equipment at December 31, 2000 and 1999 comprise the following:

	Millions of Won					
	2000			1999		
	Acquisition Cost	Accumulated Depreciation	Book Value	Acquisition Cost	Accumulated Depreciation	Book Value
Land	₩ 320,266	₩ -	₩ 320,266	₩ 355,993	₩ -	₩ 355,993
Buildings	394,565	11,084	383,481	378,918	44,177	334,741
Structures	14,706	1,542	13,164	19,954	5,263	14,691
Machinery and equipment	379,058	124,166	254,892	589,433	419,883	169,550
Vehicles	8,695	5,689	3,006	13,063	10,291	2,772
Tools	201,858	155,159	46,699	197,814	143,098	54,716
Machinery in transit	50,607	-	50,607	8,891	-	8,891
Construction in progress	140,726	-	140,726	91,802	-	91,802
	<b>₩1,510,481</b>	<b>₩ 297,640</b>	<b>₩1,212,841</b>	<b>₩1,655,868</b>	<b>₩622,712</b>	<b>₩1,033,156</b>

At December 31, 2000, a substantial portion of the Company's land, buildings and machinery are pledged as collateral for long-term and short-term debt obligations up to approximately ₩690,144 million (See Notes 11 and 12).

At December 31, 2000 and 1999, the appraised tax basis of lands, as determined by the local governments of Korea for property tax assessment purposes, are approximately ₩285,921 million and ₩364,571 million, respectively.

At December 31, 2000, property, plant and equipment are insured against fire and other casualty losses up to approximately ₩1,640,163 million.

## 11. Short-term Borrowings

Short-time borrowings at December 31, 2000 and 1999 and comprise the following:

	Lender	Annual Interest Rate (%)	Millions of Won	
			2000	2000
			2000.12.31	2000
Export financing	Hanvit Bank	7.82	₩ 11,859	₩ 28,341
General loan	KORAM Bank, etc	7.25 - 9.05	128,700	187,700
USANCE	Hanvit Bank, etc	7.46 - 7.66	66,160	59,676
			<b>₩ 206,719</b>	<b>₩ 275,717</b>

Current maturities of long-term debt at December 31, 2000 and 1999 comprise the following:



**Millions of Won**

	<b>2000</b>	<b>1999</b>
Debentures	₩ 90,000	₩ 65,000
Long-term debt	58,040	45,779
Long-term other accounts payable	3,497	2,978
	151,537	113,757
Less : Premiums (Discounts) on debentures	(1,472)	449
	<b>₩150,065</b>	<b>₩114,206</b>

Repayment of above short-term borrowings is guaranteed by several banks (see Note 15). In addition, a substantial portion of Company's short-term financial instruments and certain property, plant and equipment are pledged as collateral for repayment of the above short-term borrowings (see Notes 4 and 10).

### 12. Long-Term Debt

Long-term debt at December 31, 2000 and 1999 comprises the following:

#### Debentures

			<b>Annual Interest Rates (%)</b>		<b>Millions of Won</b>		<b>Guarantor</b>
			<b>2000.12.31</b>	<b>2000</b>	<b>1999</b>		
Guarantor Guaranteed debentures payable through 2000	97.1.7 - 00.1.7	11.0 - 25.0	₩ -	₩ 45,000		Seoul Fidelity Insurance Co.	
Non-guaranteed debentures payable through 2003	97.6.4 - 03.9.28	7.0 - 9.0	331,200	224,900		-	
			<b>331,200</b>	<b>269,900</b>			
Less : Treasury bonds			(10,000)	(-)			
Current maturities			(90,000)	(65,000)			
Discount on debentures			(6,449)	(6,822)			
			<b>₩224,751</b>	<b>₩ 198,078</b>			

#### Convertible Bonds

			<b>Annual Interest Rates (%)</b>		<b>Millions of Won</b>		<b>Guarantor</b>
			<b>2000.12.31</b>	<b>2000</b>	<b>1999</b>		
The 41st CB in foreign currencies	95.9.28 - 10.12.31	0.25	₩ 8,556	₩16,878		Non-guaranteed	
The 52nd CB in Won	97.4.19 - 02.12.31	-	1,890	1,890		"	
The 54th CB in Won	97.12.5 - 02.12.31	-	20,000	20,000		"	
			<b>30,446</b>	<b>38,768</b>			
Less : Treasury CB			(20,000)	(20,000)			
Conversion right adjustments			(4,059)	(8,559)			
Discounts on bonds			(24)	-			
			<b>₩ 6,363</b>	<b>₩10,209</b>			



A summary of the terms of convertible bonds is as follows:

#### **The 41st Convertible Bonds**

- Interest rate: 0.25% per annum payable annually in arrears on December 31.
- Conversion period: On or after October 30, 1995 through November 30, 2010.
- Conversion Price: Subject to adjustment based on certain events (₩3,390 per common share as of December 31, 2000), with a fixed exchange rate applicable to the conversion of ₩777.80 : US\$1.00.
- Redemption: Redeemable at the option of the bondholders on September 28, 2000 at 139.69% of the principal amount, and at the option of the Company at any time on or after October 30, 1995 through November 30, 2010. However, no such redemption by the Company cannot be made unless the closing price of the Company's common shares for twenty business days consecutively has reached 145% of the conversion price. During 2000, ₩8,322 million of convertible bonds were redeemed at the option of the bond holders.

#### **The 52nd Convertible Bonds**

- Issuing date: April 19, 1997
- Interest rate: 0% per annum
- Conversion period: On or after April 19, 1997 through November 30, 2002.
- Conversion price: Subject to adjustment based on certain events (₩1,674 per common share as of December 31, 2000)
- Redemption: On December 31, 2002, the bond will be redeemed at 105.83% of the principal amount.

#### **The 54th Convertible Bonds**

- Issuing date: December 5, 1997
- Interest rate: 0% per annum
- Conversion period: On or after March 6, 1998 through November 30, 2002.
- Conversion Price: Subject to adjustment based on certain events (₩966 per common share as of December 31, 2000)
- Redemption: On December 31, 2002, the bond will be redeemed at 128.08% of the principal amount. However, all of the 54th convertible bonds are owned by the Company as of December 31, 2000 and recorded as treasury convertible bonds.

## Long-term Borrowings

Lender	Purpose	Annual Interest Rates (%)	Millions of Won	
		2000.12.31	2000	1999
<b>Won currency loans</b>				
Hanvit Bank	Facility loans	7.5	₩ 2,200	₩ 2,500
Korea Development Bank	Foreign facility loans	8.96 - 11.05	138,363	116,091
KDB Capital	Information improvement loans	6.5	398	398
			140,961	118,989
	Less: current maturities		(33,257)	(23,428)
			107,704	95,561
<b>Foreign currency loans</b>				
Korea Development Bank	Foreign facility loans	8.16 - 9.15	18,820	8,550
KEXIM Bank	Foreign direct Investment	6.66 - 6.96	27,044	49,854
Hanvit Bank	Foreign facility loans	6.66 - 9.18	5,596	8,573
Korea International Merchant Bank	Facility loans	7.66	1,800	3,272
Citi Bank, etc	Facility loans, etc	6.91 - 7.01	12,485	21,408
			65,745	91,657
	Less: current maturities		(24,783)	(22,351)
			40,962	69,306
			₩148,666	₩ 164,867

The annual maturities in aggregate of long-term debt outstanding at December 31, 2000 are as follows:

For the year ending December 31,	Millions of Won				
	Debentures	Convertible Bonds	Won Currency Loans	Foreign Currency Loans	Total
2002	₩116,200	₩1,890	₩50,163	₩ 17,851	₩186,104
2003	115,000	-	38,347	14,440	167,787
2004	-	-	18,894	7,479	26,373
2005	-	-	-	1,192	1,192
2006 and thereafter	-	8,556	300	-	8,856
	₩231,200	₩ 10,446	₩ 107,704	₩ 40,962	₩390,312

At December 31, 2000, a substantial portion of the Company's short-term financial instruments, and property, plant and equipment are pledged as collateral for above long-term debt (see Notes 4 and 10). Repayments of the above long-term borrowings are guaranteed by several banks (see Note 15).

### 13. Leases

At December 31, 2000 and 1999 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	Millions of Won			
	Acquisition Cost		Depreciation Expense	
	2000	1999	2000	1999
Machinery and equipment	₩10,075	₩10,075	₩807	₩1,174

Scheduled future lease payments in aggregate under these capital lease arrangements at December 31, 2000 are as follows:

For the year ending December 31,	Lease payments	Interest	Net lease liability
2001	₩ 4,020	₩ 523	₩ 3,497
2002	4,023	290	3,733
2003	2,202	114	2,088
	₩ 10,245	₩ 927	9,318
	Less : Current maturities		(3,497)
			₩ 5,821

### 14. Accrued Severance Benefits

Accrued severance benefits at December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Balance at beginning of year	₩108,821	₩98,037
Actual payments	(29,459)	(10,760)
Provision for severance benefits	22,882	21,460
Transferred from affiliated companies	-	84
	102,244	108,821
Less : Cumulative deposits to		
National Pension Fund	( 7,262)	( 8,843)
Severance insurance deposits	(84,461)	(64,482)
Balance at end of year	₩ 10,521	₩35,496

## 15. Commitments and Contingencies

The Company has entered into bank overdraft agreements with several banks amounting to ₩27,100 million as of December 31, 2000. As of December 31, 2000, the Company also has entered into agreements with various financial institutions to discount notes and foreign currency denominated accounts receivable an aggregate maximum of ₩52,000 million and US\$ 349 million, respectively. Outstanding balances of such discounted or endorsed notes receivable and foreign currency denominated accounts receivable are ₩32,370 million and ₩13,631 million at December 31, 2000 (see Note 5). The Company also has sold certain foreign currency denominated accounts receivable with recourse to several banks. The outstanding balances of such receivables are ₩235,926 million (US\$ 187 million) at December 31, 2000.

The Company has obtained guarantees for its short-term and long-term borrowings from several banks. At December 31, 2000, the aggregate amount of guarantees outstanding amounts to US\$ 22 million and the Company has provided several blank checks and promissory notes as collateral for repayment of loans and guarantees (Notes 11 and 12).

At December 31, 2000, the Company have provided guarantees of ₩249,442 million (US\$ 198 million) with respect to financing by its overseas subsidiaries and ₩316 million by its other subsidiaries. Such guarantees are as follows:

Subsidiaries	In million of Won
Jiangsu Hankook Tire Co., Ltd.	₩ 114,759
Hankook Tire Jiaying Co., Ltd.	74,952
Hankook Tire America Corp.	23,619
Hankook Tire Netherlands B.V.	14,936
Hankook Reifen Deutschland GmbH	6,070
ASA Co., Ltd.	316
Others	15,106
	<b>₩ 249,758</b>

The Company has entered into agreements to purchase raw rubber materials with several suppliers, which are usually renewed annually.

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

A summary of forward contracts outstanding at December 31, 2000 is as follows:

Counterparty	In Thousands			Settlement date	Millions of Won			
	Bought	Sold	Settlement Rate		Unrealized Valuation	Unrealized Gain	Unrealized Loss	Capital Adjustment
Citibank	-	US\$ 2,000	1,116 <sup>20</sup>	2001. 1.18	₩ -	-	₩ 287	₩ -
"	-	US\$ 10,000	1,134 <sup>20</sup>	2001. 1.29	-	-	1,258	-
"	-	US\$ 300	1,118 <sup>20</sup>	2001. 4.16	-	-	43	-
"	-	US\$ 1,500	1,114 <sup>20</sup>	2001. 5.14	-	-	221	-
"	-	US\$ 11,400	1,186 <sup>20</sup>	2001. 6.29	-	-	866	-
"	US\$ 15,350	-	1,115 <sup>20</sup>	2001. 4.03	2,231	-	-	-
AMRO	EUR 193	-	0.8501	2001. 1.22	-	-	-	22
KORAM Bank	JPY 98,000	-	101 <sup>23</sup>	2001. 4.13	-	-	-	(117)
					₩ 2,231		₩ 2,675	₩ (95)



In 2000, the Company recorded realized gain and losses amounting to ₩5,060 million and ₩5,335 million, respectively, and also recorded ₩95 million of unrealized gains or losses on derivatives for cash flow hedging that is effective as capital adjustments at December 31, 2000.

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices.

The Korean economy is currently experiencing additional difficulties, 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 banking industry is currently undergoing consolidations and significant uncertainty exists with regard to the availability of short-term financing during the coming year. The Company may be either directly or indirectly affected by the situation described above.

The accompanying non-consolidated financial statements reflect management's current 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.

**16. Revaluation Reserve**

In accordance with the Asset Revaluation Law, the Company revalued a substantial portion of its property, plant and equipment on July 1, 2000. Changes in asset revaluation surplus are as follows:

	Millions of Won		
	Revalued Amount	Book Value	Increment
Land	₩ 425,981	₩ 356,491	₩ 69,490
Buildings	385,208	370,960	14,248
Structures	15,578	14,598	980
Machinery and equipment	268,294	166,914	101,380
Vehicles	4,029	2,707	1,322
	₩1,099,090	₩ 911,670	₩187,420
Less : Asset revaluation tax			(3,008)
Transfer to other capital surplus			(40,820)
Net increase of revaluation surplus			143,592
Beginning balance of revaluation surplus			315,898
Ending balance of revaluation surplus			₩459,490

## 17. Retained Earnings

Retained earnings as of December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Legal reserve	₩ 15,260	₩ 12,260
Reserve for Improvement of financial structure	19,320	19,320
Reserve for business rationalization	40,585	36,585
Voluntary reserve	133,101	125,898
Unappropriated retained earnings	9,934	10,604
	<b>₩ 218,200</b>	<b>₩ 204,667</b>

Details of adjustments to the retained earnings as of January 1, 1999 to conform to the revised Financial Accounting Standards effective 1999 are as follows:

	Millions of Won	
	1999	
Retained earnings as of January 1, 1999 before adjustments	₩	5,662
Adjustments: Loss on investments in equity method investees		(10,483)
Increase in deferred tax assets		5,700
Others, net		(988)
Retained earnings as of January 1, 1999, as adjusted	<b>₩</b>	<b>(109)</b>

### 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 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 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 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 disposal of fixed assets after deducting related taxes, until equity is equal to 30% of total assets. This reserve is not available for 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 is required to appropriate, as a reserve for business rationalization, amounts equal to the tax reduction arising under the RTREA. This reserve is not available for dividends, but may be transferred to common stock through an appropriate resolution by the Company's board of directors or may be used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

**Voluntary Reserve**

The Company appropriates a certain portion of retained earnings pursuant to shareholder 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.

**18. Divident Information**

Dividends for 2000 and 1999 are calculated as follows:

**Number of common shares entitled to receive dividends**

- 2000 : 145,060,897 common shares
- 1999 : 144,719,318 common shares

**Dividend Amounts**

			Formula	In Won
2000	Cash Dividend	Common stock	$145,060,897 \times \text{₩}500 \times 12\% \times 366/366$	₩8,703,653,820
1999	Cash Dividend	Common stock	$144,719,318 \times \text{₩}500 \times 10\% \times 365/365$	7,235,965,900
1999	Stock Dividend	Common stock	$144,719,318 \times \text{₩}500 \times 3\% \times 365/365$	2,170,789,770
				<b>₩ 9,406,755,670</b>

**Dividends Payout Ratio**

	In Won	
	2000	1999
Dividends	₩ 8,703,653,820	₩ 9,406,755,670
Net Income	23,322,057,705	40,899,440,565
Dividends Payout Ratio	<b>37.32%</b>	<b>23.00%</b>

**Dividends Yield Ratio**

	In Won	
	2000	1999
Dividends per share	₩ 60	₩ 65
Market price as of December 31, 2000	1,695	3,200
Dividends Yield Ratio	<b>3.54%</b>	<b>2.03%</b>

## 19. Capital Adjustments

Capital adjustments as of December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Treasury stock	₩(10,320)	₩ -
Conversion right	5,423	10,597
Unrealized gain on investment securities	32,596	79,418
Unrealized gain on devivatives	-	2,958
Unrealized loss on devivatives	(95)	-
Unissued stock dividends	-	2,171
	<b>₩ 27,604</b>	<b>₩ 95,144</b>

## 20. Income Taxes

The statutory income tax rate applicable to the Company, including resident tax surcharges, is approximately 30.8%.

Income tax expenses for the years ending December 31, 2000 and 1999 comprise the following:

	Millions of Won	
	2000	1999
Current income taxes	₩ 10,693	₩ 23,314
Deferred income taxes	(446)	(4,710)
	<b>₩ 10,247</b>	<b>₩ 18,604</b>

The Company's effective income tax rates for the years ending December 31, 2000 and 1999 are 30.5% and 31.3%, respectively.

The components of differences between taxable income and net income before income taxes for the year ended December 31, 2000 are as follows:

	Millions of Won	
	Temporary differences	Permanent differences
Foreign exchange gain or loss	₩ (6,213)	₩ -
Provision for reserve for taxation purpose	2,373	-
Provision for bad debt	941	-
Depreciation	8,368	-
Loss from equity method	3,016	-
Capitalized interest costs	(8,023)	-
Gains on trading of forward contract	(1,141)	-
Loss on trading of forward contract	2,675	-
Allowance for doubtful accounts	1,490	-
Accrued royalty fee income	(3,644)	-
Tax and dues	-	14
Entertainment expenses	-	4,448
Donations	-	29
Settlement of the prior years' income taxes	-	6,451
Others	(194)	-
	<b>(352)</b>	<b>10,942</b>

During 2000, the Company recognized ₩3,669 million of tax credits, which mainly consist of equipment investment tax credits and technology and manpower development tax credits.

Components of deferred taxes as of December 31, 2000 are as follow:

	Millions of Won		
	Beginning Balance	Increase (Decrease)	Ending Balance
Loss on equity method investees	₩ 27,052	₩ 3,016	₩ 30,068
Provision for bad debt	3,814	1,073	4,887
Depreciation	9,948	10,363	20,311
Provision for severance benefits	6,369	-	6,369
Provision for reserve for taxation purpose	(5,470)	2,297	(3,173)
Loss for investment securities	3,586	1,397	4,983
Foreign exchange gain of loss	17,503	(6,213)	11,290
Others	(2,517)	(3,928)	(6,445)
<b>Total</b>	<b>₩ 60,285</b>	<b>₩ 8,005</b>	<b>₩ 68,290</b>
<b>Deferred income tax assets</b>	<b>₩ 18,568</b>	<b>₩ 2,465</b>	<b>₩ 21,033</b>

The Company periodically assesses its ability to recover deferred tax assets. In the event of 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.

## 21. Earnings Per Share

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

Earnings and ordinary income per share for the years ended December 31, 2000 and 1999, are calculated as follows:

	In Won	
	2000	1999
Net income	₩ 23,322,057,705	₩ 40,899,440,565
Interests for converted convertible bonds	-	238,703,891
Net income for common shares	23,322,057,705	41,138,144,456
Weighted average number of common shares outstanding	145,939,243	149,060,897
<b>Earnings per share</b>	<b>₩ 160</b>	<b>₩ 276</b>
Net income for common shares	₩ 23,322,057,705	₩ 41,138,144,456
Extraordinary gain (loss)	-	-
Ordinary income allocated to common stock	23,322,057,705	41,138,144,456
Weighted average number of common shares outstanding	145,939,243	149,060,897
<b>Ordinary income per share</b>	<b>₩ 160</b>	<b>₩ 276</b>

Diluted earnings per share and diluted ordinary income per share for the years ended December 31, 2000 and 1999 are calculated as follows:

	Millions of Won	
	2000	1999
Net income and ordinary income	₩ 23,322,057,705	₩ 41,138,144,456
Add : interest expenses of convertible bond	275,543,080	430,360,621
	23,597,600,785	41,568,505,077
Weighted average number of common shares outstanding	145,939,243	149,060,897
Weighted average number of diluted shares	3,652,867	5,983,372
	149,592,110	155,044,269
<b>Diluted earnings and ordinary income per share</b>	<b>₩ 158</b>	<b>₩ 268</b>

At December 31, 2000, the 41st and 52nd convertible bonds of the Company are potentially convertible to common shares of the Company in the future.

## 22. Research and Development Costs

Research and development costs incurred in 2000 and 1999 are ₩42,086 million and ₩41,209 million, respectively, all of which are charged to current operations.

## 23. Related Party Transactions

Significant transactions with affiliated companies for the years ended December 31, 2000 and 1999 and related account balances as of December 31, 2000 and 1999 are summarized as follows:

Accounts	Millions of Won			
	Sales	Purchases	Account Receivables	Account payables
Korea Storage Battery Ltd.	₩ -	₩ 25,718	₩ -	₩ 10,367
Daehwa Eng' & Machinery Co., Ltd.	-	18,437	-	5,209
ASA Co., Ltd.	-	3,197	-	902
Hanta M&B Co., Ltd.	-	6,732	-	383
Emfrontier Inc.	-	3,645	-	878
Hankook Tire America Corp.	148,156	-	9,355	-
Hankook Tire Canada Corp.	30,328	-	818	-
Hankook Tyre U.K. Ltd.	27,988	-	1,075	-
Hankook Tire Japan Corp.	13,231	-	-	-
Hankook Reifen Deutschland GmbH	67,754	-	2,145	-
Hankook Tire Netherland B.V.	20,266	-	1,206	-
Hankook Tire France SARL	32,800	-	1,639	-
Hankook Tire Jiaxing Co., Ltd.	4,327	1,772	4,327	117
Jiangsu Hankook Tire Co., Ltd.	5,300	20,659	5,300	385
Hankook Tire Italia S.R.L.	26,530	-	800	-
Hankook Espana S.A.	36,664	-	2,169	-
Hankook Tyre Australia PTY., Ltd.	32,016	-	1,210	-
<b>2000</b>	<b>₩ 445,360</b>	<b>₩ 80,160</b>	<b>₩ 30,044</b>	<b>₩ 18,241</b>
<b>1999</b>	<b>₩ 448,724</b>	<b>₩ 61,025</b>	<b>₩ 20,316</b>	<b>₩ 23,952</b>

## 24. New Business

In 2000, the Company launched its housing construction business, which is summarized as follows:

Millions of Won	
Contract revenue recognized in 2000	₩ 37,383
Contract cost recognized in 2000	36,243
<b>Gross Profit</b>	<b>₩1,140</b>

The Company discontinued the operations of Youngdeungpo Plant on April 30, 2000 and the production equipment held at the plant was relocated to other plants or disposed of to its affiliated companies overseas and the third parties.

## 25. Segment Information

### Industry Segment Information

Financial information on industry segments for the year ended December 31, 2000 is as follows:

	Millions of Won				
	Tire	Tube(*)	Housing	Other	Total
Sales	₩ 1,159,985	₩ 9,617	₩ 37,383	₩ 105,740	₩ 1,312,725
Operating income (loss)	321,640	1,712	1,139	(218,166)	106,325
Fixed asset					
Tangible and intangible assets	771,326	21,358	88,215	420,530	1,301,429
Depreciation and amortization	₩ 107,252	₩ 1,424	₩ -	₩ 21,352	₩ 130,028

(\*) On July 1, 2000, the Company discontinued its tube manufacturing operations and related assets were transferred to other plants of the Company or disposed of.

### Geographical Segment Information

Sales	Millions of Won	
	2000	1999
North America	₩ 196,300	₩ 205,398
South America	93,532	75,058
Asia	126,163	150,323
Europe	240,776	270,383
Other	36,890	38,014
Local export	67,882	67,510
Domestic	551,182	470,564
<b>Total</b>	<b>₩ 1,312,725</b>	<b>₩ 1,277,250</b>

## 26. Supplemental Cash Flow Information

### Definition of Cash and Cash Equivalents

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

### Transactions Not Affecting Cash Flows

Significant transactions not affecting cash flows for the year ended December 31, 2000 and 1999 are as follows:

	Millions of Won	
	2000	1999
Current maturities of long-term debts	₩ 151,537	₩110,779
Provision for reserve for asset revaluation <sup>1</sup>	43,592	-
Inventory transfer from tangible asset	103,711	-
Others	50,264	34,520

## 27. Subsequent Events

On January 8, 2001, the Company issued its 70th non-guaranteed debentures with face value of ₩30,000 million at ₩28,965 million.

The Company decided to close its Incheon Plant on February 1, 2001 in accordance with its Incheon Plant Restructuring Plan and will relocate and dispose all related property, plant and equipment



*A New Beginning on our 60th Anniversary  
"Trust and Value to the World"*



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