

# 2008 Annual Report

## History

- 2008 Expansion of Keumsan Plant  
Introduction of the eco-friendly "enfren"  
enfren and Optimo 4S receives IF Design Awards, a first in the tire industry  
-
- 2007 Completion of the Wet Track in Keumsan  
Production starts at Hungary Plant  
-
- 2006 Groundbreaking Ceremony for the Hungary Plant  
-
- 2004 Announcement of a New CI  
Completed establishment of the Keumsan Test Track (G\*Trac)  
Selected as a Strategic Partner by Ford Motors  
Opening of T'Station, a premium franchise providing complete service with respect to tires  
-
- 2001 Completed establishment of the Europe Distribution Center (EDC)  
-
- 1998 Establishment of the China Technical Center (CTC)  
Completed establishment of Jiangsu Plant and Jiaxing Plant (China)  
Recipient of the Ford Motor's Q1 Award  
Introduction of the ERP system  
-
- 1994 Establishment of Beijing Sales Office  
Establishment of Keumsan Plant  
Establishment of the Europe Technical Center (ETC)  
-
- 1982 Establishment of the Main R&D Center  
Establishment of Akron Technical Center (ATC)  
-
- 1981 Establishment of Hankook Tire America Corporation (HANAM)  
-
- 1979 Completed establishment of Daejeon Plant (Korea)  
-
- 1941 Establishment of Hankook Tire

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At Hankook Tire, we strive to protect the environment in every way we can, no matter how small. This Annual Report uses environment-friendly paper printed in soybean oil ink.



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**2008  
Annual Report**



# STABLE GROWTH

as a Leading Global Tire Company

We are at the forefront of Korea's tire industry and emerging as a major global player. Hankook Tire has grown steadily ever since being founded and boasts the highest (95.71%) aggregate sales growth rate in the global tire industry between 2003 and 2007. The steep rise in sales has provided the platform for propelling Hankook Tire from the ranks of the 2nd-tier players to top-tier status. Our steady growth momentum has set a milestone towards our future, and we will continuously strive for stable growth, thus satisfying your expectations as shareholders.



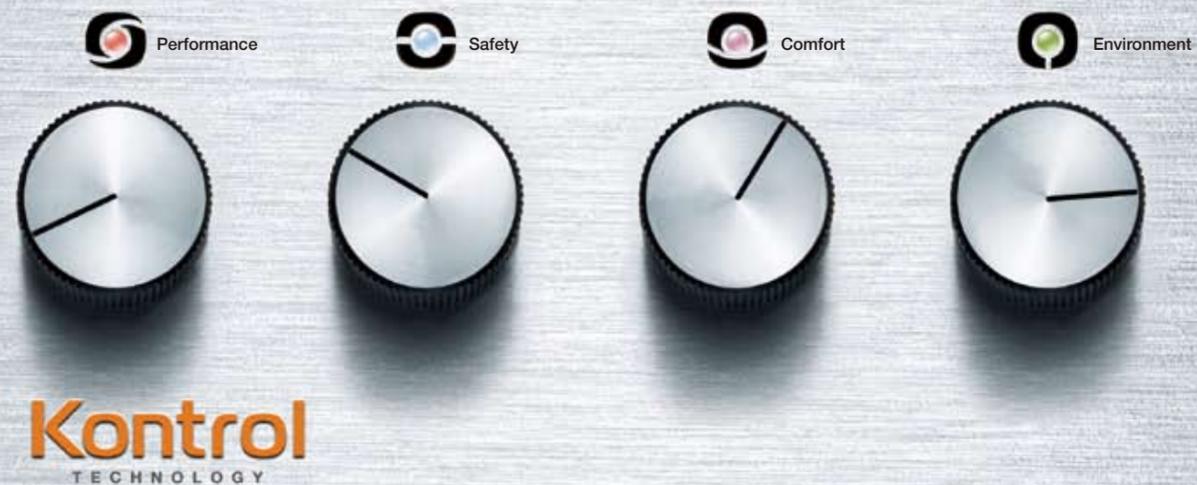
# KONTROL TECHNOLOGY

for Excellent Technology in Motion

Companies that own technology can grow; companies that adhere to the basics can succeed.

"Kontrol Technology," our unique set of principles and philosophy regarding technology, is applied to all Hankook Tire products, from initial research to development and production.

"Kontrol" is a combination of the "k" from "kinetic" with the word "control" to describe how tire movement can completely regulate the interaction between the driver and the vehicle, the vehicle and the road surface, and the road surface and the driver. Our Kontrol Technology satisfies all four of the most important concerns for buyers of high quality tires: driving performance, driving safety, ride comfort and environmental friendliness.



# GOING GLOBAL

as the World's Top Tire Maker

We are advancing forcefully into every region of the globe, taking on the challenge of becoming the world's best. Hankook Tire now operates plants in China (Jiangsu and Jiaying) and Europe (Hungary), in addition to Korea (Daejeon and Keumsan) to provide top quality tires around the world. Maximum productivity and a diverse lineup enable us to steadily increase our supply volume. We produced a total of 69 million tires in 2008 as we continue our advance toward global top-tier status.



Daejeon Plant & Keumsan Plant **40** million tires



Jiangsu Plant & Jiaying Plant **25.5** million tires



Hungary Plant **3.7** million tires

Hankook Tire's Tire Output in 2008

# BETTER QUALITY SERVICE

to Ensure Utmost Customer Satisfaction

Our service philosophy stresses perfection; our consistent aim is to ensure zero problems. Passionate about improving our services constantly, we have acquired diverse distribution channels and installed a global cargo tracking system. We are setting a new trend in the global tire market as the percentage of overseas sales through independent distribution channels and retailers continues to grow. In addition, our new tracking system allows us to check the real-time location of any shipment from the moment it leaves the factory to its arrival at the final warehouse destination. This innovation is just another example of the exceptional service philosophy at Hankook Tire, where the needs of customers are put first. Our efforts to achieve perfect, customer-focused services continue.

#### Distribution Channels

Korea: More than 2,100 locations (Direct-Run or Franchise)

China: T'Station, Tire Town

Latin America, Middle East, Asia-Pacific: Hankook Tire Model shops

Global Cargo Tracking System now in Operation



# H·LOHAS

for the Next Generation

We pledge green growth for the next generation as we fulfill our corporate social responsibilities. We launched the Hankook Lifestyle of Health and Sustainability (H·LOHAS) campaign in 2008 to promote smooth interactions among people and between people and nature. This unique program is helping to create a society in which all members can enjoy a higher quality of life. Campaign components include environment-friendly products, Corporate Social Responsibility (CSR) activities to assist the disadvantaged, and activities to promote employee good health. The scope of H·LOHAS participation is now being expanded beyond the company to include our customers.



**Well-being Activities**

**Eco-Friendly**

**Social Responsibility**

# Corporate Profile

## The Stature of Hankook Tire 014

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Korean Market

1<sup>st</sup>

Chinese Market

1<sup>st</sup>

Global Market

7<sup>th</sup>

**Hankook Tire was the first tire maker in Korea and has remained a key player in the industry every step of the way.**

Today, we are well known worldwide, and our stature is rising fast toward global prominence. The US publication *Modern Tire Dealer* has ranked Hankook Tire seventh in the world in terms of sales for 2008. (The Japanese makers Yokohama Tire and Toyo Tire were not among the companies directly compared, due to differences in fiscal year.) We were the only Korean tire maker to make the US consultancy Deloitte's list of the world's top 250 consumer products in 2008. In addition, we ranked 28th in total, and 11th in the numerical index of the "2008 Sustainability Review of Korea's Top 100 Companies" held by the Economic Research Institute for Sustainable Society (ERISS).

# The Stature of Hankook Tire

## Hankook Tire's Current Status

<sup>1</sup> Global Ranking

Rank	Name
1	Bridgestone Corp.
2	Group Michelin
3	Goodyear Tire & Rubber Co.
4	Continental AG
5	Pirelli & C. S.p.A
6	Sumitomo Rubber Industries Ltd.
7	<b>Hankook Tire Co., Ltd</b>
8	Cooper tire & Rubber Co.
9	Kumho Tire Co. Inc.

Yokohama Tire and Toyo Tire could not be compared with other tire makers on the basis of a fiscal year ending on March 31, 2008. (Source: MTD)

### Korea's No.1 Tire Company

Hankook Tire was established in 1941 as the first tire maker in Korea. Today, we remain the domestic industry leader and serve as a yardstick for measuring how far the industry has developed. In 2008, we sold the most passenger car tires of any domestic tire manufacturer.

In the "2008 Sustainability Review of Korea's Top 100 Companies," held by the Economic Research Institute for Sustainable Society (ERISS), we ranked 28th in total valuation, and 11th in the numerical index, which consists of the economic, environmental and social sustainability valuation. This indicates Hankook Tire is highly competitive not only in the Tire Industry, but among the Korean Economy as a whole.

### 7th in the World

The January 2009 issue of *Modern Tire Dealer* magazine published the 2008 sales data for the global tire industry, and Hankook Tire placed seventh on the list. Our ranking has risen four places since 2002, demonstrating our potential for becoming one of the global leaders.

Today we supply high quality tires to customers in 185 countries. Our overseas network of four Regional Headquarters and over twenty Overseas Sales Offices carry out tire sales through a localized approach. To produce top quality tires, we also develop world-class technology at five R&D centers worldwide and operate tire plants at five locations in three countries. Our global operations employ more than 14,000 people and some 70 percent of our revenue is earned outside Korea.

Our unique and practical designs and technology have been very well received in the world marketplace, and other companies have expressed interest in acquiring technology from us, indicating the high level of excellence. Since initiating our market-driven approach in 2003, our organization has been successfully transformed, and Hankook Tire was the only Korean tire maker to appear on the 2008 list of the world's top 250 consumer products, compiled by the global consulting firm Deloitte.



### 2008 Sustainability Review of Korea's Top 100 Companies (Numerical Index)

Rank	Name
1	Samsung Electronics
2	POSCO
3	Woongjin - Coway
4	SK Telecom
5	KEPCO
6	Hynix Semiconductor
7	LG Chem
8	Korea Gas Corp.
9	KT
10	KT&G
11	<b>Hankook Tire</b>
12	Samsung SDI
13	Daewoo Securities
14	LG Household & Health Care
15	LG Electronics

Source: ERISS

### Award Marks

iF Design Awards



Good design



Blue Angel



Green Product Winner



## Global Ranking Awards

### 2009 "iF Design Awards"

#### in the Transportation Category

Germany's iF (International Forum) Design Awards are among the world's three most prestigious design award programs, along with Red Dot and IDA.

In 2009, Hankook Tire's enfren and Optimo 4S won iF Design Awards in the Transportation category, a first in the tire industry. This category covers everything from automobiles to bicycles, and award winners are selected after a meticulous screening process. A total of 2,808 top-class products from 39 countries vied for the coveted iF Design Awards in 2009.

### Environment-friendly enfren & Motion Graphic Brochure (Optimo 4S) Get "Good Design Marks"

The Korea Institute of Design Promotion organizes the Good Design Awards under the auspices of the Ministry of Knowledge Economy. The enfren tire and motion graphic brochure for the Optimo 4S were selected for the Good Design (GD) Mark at the 2008 Good Design Awards.

The design of the new enfren line was recognized for significantly reducing fuel consumption, which contributes to lower CO<sub>2</sub> emissions. The new product marks a decisive turn in the development cycle of Kontrol Technology, a philosophy unique to Hankook Tire, while the "enfren" name, derived from "environment friendly," underscores the product positioning. The tire design has aesthetic elements based on the nature theme: a unique tread pattern that resembles a tree leaf and a sidewall pattern with butterfly silhouette. The tires also perform beautifully, with outstanding water drainage and superb ride comfort.

In addition, the motion graphic brochure for the Optimo 4S received the GD Mark in the

Communication Design category. The motion graphics medium conveys the product features with a special touch. The comfort and premium nature of the product are conveyed in an elegant yet familiar way. The brochure also received high marks for highlighting the environment-friendly composition and design of the product.

### Optimo 4S Receives "Blue Angel Mark"

Germany's prestigious Blue Angel Mark, the world's oldest ecological label, was conferred on the Optimo 4S (May 2008), an all-season tire. The asymmetric tread design exhibits the advantages of summer and winter tires at the same time. The inside of the tread delivers winter performance, while the outside offers the handling features expected of a summer tire.

### KMAR Chooses enfren as "2008 Green Product Winner"

Korea Management Association Registration and Assessments Inc. named enfren its 2008 Green Product Winner in the Passenger Car Tire category. The fuel-saving, environment-friendly tires were introduced in June 2008 after two and a half years of research at a cost of KRW 11 billion. They are seen as an outstanding product that marks a milestone in the history of the Korean tire industry.

Award Marks

Web Award Korea



LACP



Magazine Test Tires

OPTIMO 4S



VENTUS V12 evo



VENTUS PRIME



OPTIMO K715



Magazine Tire Test Results

Optimo 4S

Auto Bild, Europe's largest automotive industry magazine, rated the Optimo 4S "Very Recommendable," the top mark, in a tire performance comparison test. (September 2008)

Ventus V12 evo

This tire received Auto Bild's "Very Recommendable" evaluation in a performance comparison test. (March 2008)

Ventus Prime

Auto Motor und Sport gave this tire its "Very Recommendable" rating in a performance comparison test. (July 2008)

Optimo K715

A "Recommendable" score was received from the Allgemeiner Deutscher Automobil-Club e.V (ADAC), Germany's official safety certification agency. (March 2008)



Hankook Tire Shines at

"Web Awards Korea 2008"

Web Awards Korea is Korea's most prestigious event for assessing internet sites. In 2008, the Hankook Tire global website won the overall Grand Prize; the Korean -language website received the Award of Excellence in the General Corporate Website category, and the XQ Optimo Nova site was chosen for the Award of Excellence in the Brand Promotion category.

2007 Annual Report Gets Gold Prize at LACP

"2008 Spotlight Awards"

The 2007 Hankook Tire Annual Report received the Gold Prize at the 2008 Spotlight Awards, sponsored by the League of American Communications Professionals, a world-renowned marketing research agency. More than 1,250 different print, video and online communication materials from major enterprises were displayed at the event.

Meanwhile, our PR magazine Gullungswei ("Hoop") for general readers, which has been in publication for twenty years, won the Best Design award at the 2008 International Business Awards in September.

Business Portfolio

Affiliates

The Hankook Tire Group is led by Hankook Tire, the dedicated tire producer, and includes Atlas BX (automotive batteries) and Frixax (brake pads). The Group continues to grow and diversify.

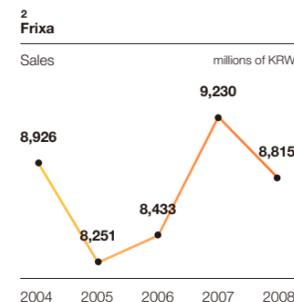
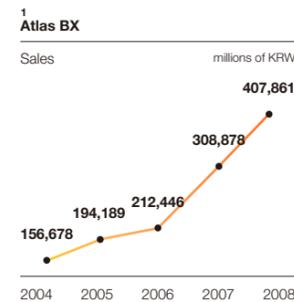
Daehwa Engineering & Machinery, which produces tire manufacturing equipment, and emFrontier, a systems integration company were recently incorporated into the Group, bolstering its position as Korea's largest enterprise specialized in automotive parts and accessories.

Atlas BX batteries received the e-Mark from the Korea Eco-Products Institute, under the Ministry of Environment, in 2008.

Major Products

- Automotive Batteries - Atlas BX has applied advanced technology to develop a long-lasting electrode mat made of nonwoven fabric. This innovation extends battery life by at least 30 percent.
- Taxi Batteries - Replacing the conventional electrode plate with an electrode mat of nonwoven fabric prevents thermal damage. Batteries exposed constantly to high temperature last at least 50% longer as a result.
- Marine Batteries - Cold-forged terminals resist corrosion from saltwater, greatly improving battery longevity.
- Industrial Batteries - The use of high-density active materials, which maintain a stable backup performance for deep cycle machinery, enable the batteries to last significantly longer.
- SUV Batteries - These batteries are designed specifically to provide a reliable source of power for high-output, high-capacity diesel engines.
- AGM Batteries - This absorbent glass mat (AGM) battery uses 100% recombinant gas absorption and special valves to regulate internal voltage, enhancing energy efficiency and vibration resistance.
- Batteries for Imported Vehicles - These batteries feature a high-performance grid made of a special alloy that resists self-discharge. They also have a high-performance separator plate that lowers electrical resistance for greater battery durability.

Affiliate Signatures



<sup>1</sup> Atlas BX Co., Ltd.

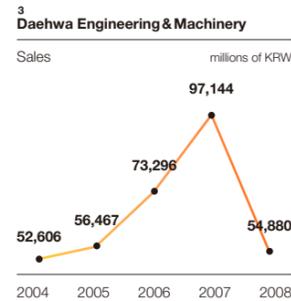
Atlas BX was established as Isan Co. Ltd. in 1944 to make batteries for cars and trucks. Over the years, the operation has grown and transformed, expanding into marine batteries and industrial batteries to lead Korea's battery industry. Production facilities include the plant established in Jeonju in 1999 with the capacity to produce 2 million batteries a year. Total annual output stands at 6.5 million units, making Atlas BX the world's sixth-largest battery maker.

After Atlas BX was acquired by Hankook Tire in 1977, battery sales were incorporated into the extensive Hankook Tire distribution network. Steady growth in battery sales resulted. In the early 1990s, Atlas Bx established a technology research center, which has helped to upgrade the product lines and solidify the company's position as a top-tier battery maker. The company was listed on the Korea Stock Exchange in 1994, providing direct access to funding from financial markets.

In the late 1990s, Atlas Bx received QS-9000, ISO-9001 and ISO-14001 certifications, followed by the ISO/TS16949 certification in 2004. Exports broke USD200 million in 2007, a new record for the Korean battery industry. Sales for 2008 totaled KRW 407.9 billion, up 32.1 percent year on year.

<sup>2</sup> Frixax Co., Ltd.

The company was established as Hanta M&B Co., Ltd. in 1996 and renamed Frixax Co., Ltd. in 2004. The product portfolio includes brake pads, brake



lining and Gramix, a base material used in brake manufacture. The company has played a leading role in elevating Korean friction material technologies to world-class status.

The Hankook Tire Main R&D Center has continued to develop new technologies, while Frixia focuses on production. Sales are conducted via the Hankook Tire network, and sales growth has remained steady. In January 2004, Frixia received QS9000 and ISO 9001 certification, attesting to outstanding product quality. The company now exports its products to more than 20 countries.

Annual sales totaled KRW 8.8 billion in 2008, down slightly year on year because of the slumping global automotive industry. However, the company will continue to reach out to the customers with products of ever-higher quality.

The outstanding braking performance, heat resistance and durability of Frixia products are key attributes for ensuring the safety of the vehicle and vehicular occupants. The company also employs exceptional technology to prevent brake noise and wheel dust formation, enhancing the quality of vehicular ride.

**Major Products**

- Premium Pads - Premium brake pads are designed for luxury sedans, providing the driver with smooth braking performance. The gray-blue back-plates add a luxurious look to the automobile.
- Brake Pads - Brake pad quality is ensured by testing equipment developed and manufactured by Akebono Engineering of Japan. Excellent thermal resistance and thermal insulation deliver superior braking power even in freezing winter temperatures.
- Shoe Assemblies - Built with new high-tech materials using many manufacturing steps, the brake linings provide excellent braking power quietly,

for safe and pleasant driving.

- Bus & Truck Brake Lining - Using equipment from Akebono Engineering, Frixia products are subjected to a full range of braking tests, from ordinary road conditions to extreme environments. They are thus proven to perform superbly anytime and anyplace.

<sup>3</sup> **Daehwa Engineering & Machinery Co., Ltd.**

Daehwa Engineering & Machinery was established in Korea in 1992 and opened an in-house research center to develop proprietary technology and localize tire manufacturing equipment. Today the company is a domestic leader in its field, having completed its own versions of tire building machine and curing press, uniformity tester for truck & bus radial tires (TBRs), high-speed driving performance tester for ultra-high-performance (UHP) tires, and 1-operator TBR-building machine.

The company's Chinese subsidiary, established in 2004, completed development of a tire builder for European-style tires in 2006. The machine was installed in the Hankook Tire Hungary Plant. In 2007, the company won a series of project bids from Hankook Tire and became a solid partner with this rising global star. The global economic downturn in 2008 prompted tire makers to curtail new investment because of liquidity concerns. As a result, Daehwa Engineering & Machinery sales totaled just KRW 54.9 billion for the year. However, the independent technology development program continues as the company works to become a world-class maker of tire production machinery.

**Major Products**

- Steel Belt Cutter - The machine cuts steel belts in the desired widths for use in the tire production process.
- Tire Builder - The machine manufactures the

carcass and build the green tire by laying the inner liner, plies and other materials in sequence onto the carcass.

- Bead Winder - The machine creates the bead required in tire production.
- Curing Press - The green tire, consisting of soft rubber, is placed inside this machine and exposed to a preset temperature and pressure that allows the sulfur and other chemicals to react with the rubber. In the process, the desired tread design and degree of tire elasticity are obtained.
- Uniformity Machine - This machine inspects the tires for uniform rigidity and dimensions. All the materials that go into the tire are measured to ensure they are in the right places in the right amounts.

<sup>4</sup> **emFrontier Co., Ltd.**

This e-business integrator applies know-how from operating the Hankook Tire information system as well as in-house system integration expertise and business network to provide complete IT solutions that cover consulting, information system outsourcing, automotive e-business and other e-commerce platforms. The company was established in August 2000 and has performed diverse projects for manufacturers, including enterprise resource planning systems, knowledge management consulting & information strategy planning, and new business development. Today, emFrontier continues to build infrastructure and develop business opportunities related to automotive e-business and AOS.

The Korea Contents Association bestowed its Industrial Award on emFrontier in 2003, and Institute for Information Technology Advancement presented the company with the Excellent Supplier Award in 2005. The Ministry of Knowledge Economy designated the emFrontier warehouse optimization

solution as "new software" in 2008.

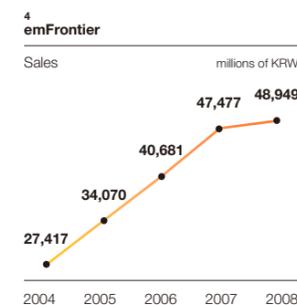
The company continues to apply cutting-edge know-how to provide optimal e-business solutions that enhance customers' competitiveness and to offer IT outsourcing services. Sales for emFrontier totaled KRW 48.9 billion in 2008.

**Solutions**

- Warehouse optimization (3D graphics)
- Warehouse management system (Web-based)
- Intellectual property management system
- Web reporting tool
- Database management tool
- Database security management tool
- Security management
- Document management tool (document compression, storage, management and distribution)
- Resource management
- Integrated account management
- Production management
- Manufacturing execution system
- Point of production system
- Plant management
- Computer-aided measurement system
- Raw material management system

**Outsourcing Services**

- Companies that sign a comprehensive information system outsourcing contract, covering hardware, software and human resources, with emFrontier can lower their IT system costs substantially. At the same time, emFrontier provides a full suite of support services that focus on their core business competencies to generate added value. System architecture and operation are tailored to fit the customer's business strategy and budget.



The Hankook Tire Brand



Brand Portfolio

We currently operate three global tire brands. The original "Hankook" name is the main brand used worldwide; "Aurora" is applied for passenger car tires, and "Kingstar" is applied to affordable tires sold outside Korea. The brands for the domestic market include Hankook's, "Ventus" (UHPT line), "Optimo" (for premium sedans), "Dyna-Pro" (for SUVs) and "Nordic" (winter tires). We have remained true to

our industry leading position in Korea by launching the "enfren" line in 2008. This is Korea's first tire that has been specifically designed to satisfy consumer needs and address environmental issues at the same time.



<sup>1</sup> Distribution Signatures



Distribution Portfolio

We operate exclusive overseas distribution channels for Hankook Tire products, while the volume of sales through retailers continues to grow. As such we are setting a new trend in global market distribution.

Hankook Tire Korea Headquarters operates more than 2,100 direct-run and franchised dealerships under the slogan of providing "the right tires and the right services." <sup>1</sup> These dealers belong to one of our unique service networks: (1) the directrun or franchise T-Station, a premium tire shop that offers a total service package; (2) Tire Town, a multipurpose tire distribution network service for both dealers and general consumers; (3) TBX, which specializes in the sale and retreading of truck & bus radial tires; and (4) regular franchised sales outlets.

In China we are rapidly establishing modern distribution networks like the T-Station and Tire Town franchises to satisfy growing demand for services that cater to owners of premium automobiles, particularly in major cosmopolitan Chinese cities. Our efforts have been well received and can be pointed to as a best practice in the development of local distribution networks.

Tire makers' dominance in the European market is strengthened through the wholesalers of major brands. Therefore, Hankook Tire Europe Headquarters focused on developing its own regional dealers and also on targeting retail businesses. At the same time, we are working to secure new channels that strongly affect purchase decisions and expanding the Hankook Masters Membership program to bolster market position.

Independent dealers and automobile dealers are the key to raise market share in the US. Here, we continue to improve our relations with current dealers while striving to develop new, large-scale channels and expand our Car Dealer Program,

which is based on the original equipment market. We are establishing model shops in Latin America, the Middle East, Africa and the Asia-Pacific. The direct-run premium sales network has helped to increase our sales of high-end products, helping us to boost profitability and enhance brand value in these particular regions. In the future, we will focus on expanding our new-concept model shops to increase both sales and profitability and elevate recognition of the Hankook Tire name.

Hankook Tire Model Shop Signature



# Global Network

## Global Network Expansion

Our contact with consumers is expanding through the global sales network. This network currently spans 37 Sales Offices in Korea and 14 Overseas Sales Offices in China, along with locations in Europe (8 Sales Subsidiaries & 5 Overseas Sales Offices), North America (2 Sales Subsidiaries), Latin America (5 Overseas Sales Offices), Asia & Oceania (2 Sales Subsidiaries & 1 Overseas Sales Office), and the Middle East/Africa (2 Sales Overseas Sales Offices). In addition, we operate two Liaison Offices (in Hanover and Detroit) for the OE business. These offices maintain close ties with automakers in order to supply them with tires as original equipment. Finally, a Liaison Office has been opened in Singapore to respond quickly to various issues such as the supply of natural rubber and other raw materials.

Not satisfied with the status quo, we are now expanding the network further in order to bolster sales in major markets. Our plans called for the establishment additional Overseas Sales Offices, one in Europe, two in the former CIS, and one in Latin America, during 2008.



**Korea** 2 Plants, 27 Sales Offices, Main R&D Center, Academy House (5,106 employees as of December 31, 2008)

**China** 2 Plants, 14 Overseas Sales Offices, China Technical Center (7,102 employees as of December 31, 2008)

**Europe** 1 Plant, 8 Sales Subsidiaries, 5 Overseas Sales Offices, 1 OE Office, Europe Technical Center (1,469 employees as of December 31, 2008)

**Americas** 1 Sales Subsidiaries, 5 Overseas Sales Offices, 6 Administrative Offices, 1 OE Office, Akron Technical Center (201 employees as of December 31, 2008)

**Middle East & Asia - Pacific** 2 Sales Subsidiaries, 3 Overseas Sales Offices, 1 Liaison Office, Japan Technical Liaison Center (53 employees as of December 31, 2008)

**■ R & D Centers** Main R&D Center (Daedeok Innopolis), Akron Technical Center (Ohio, USA), Europe Technical Center (Hanover, Germany), China Technical Center (Jiaxing), Japan Technical Liaison Center (Osaka),

**■ Plants** Korea (Daejeon & Keumsan), China (Jiaxing & Jiangsu), Hungary (Hungary)

**■ Hankook Tire Regional Headquarters** Korea, China, Europe, America

**■ Sales Subsidiaries & Overseas Sales Offices;** Located in 26 Countries

# Organization

## Organizational Structure

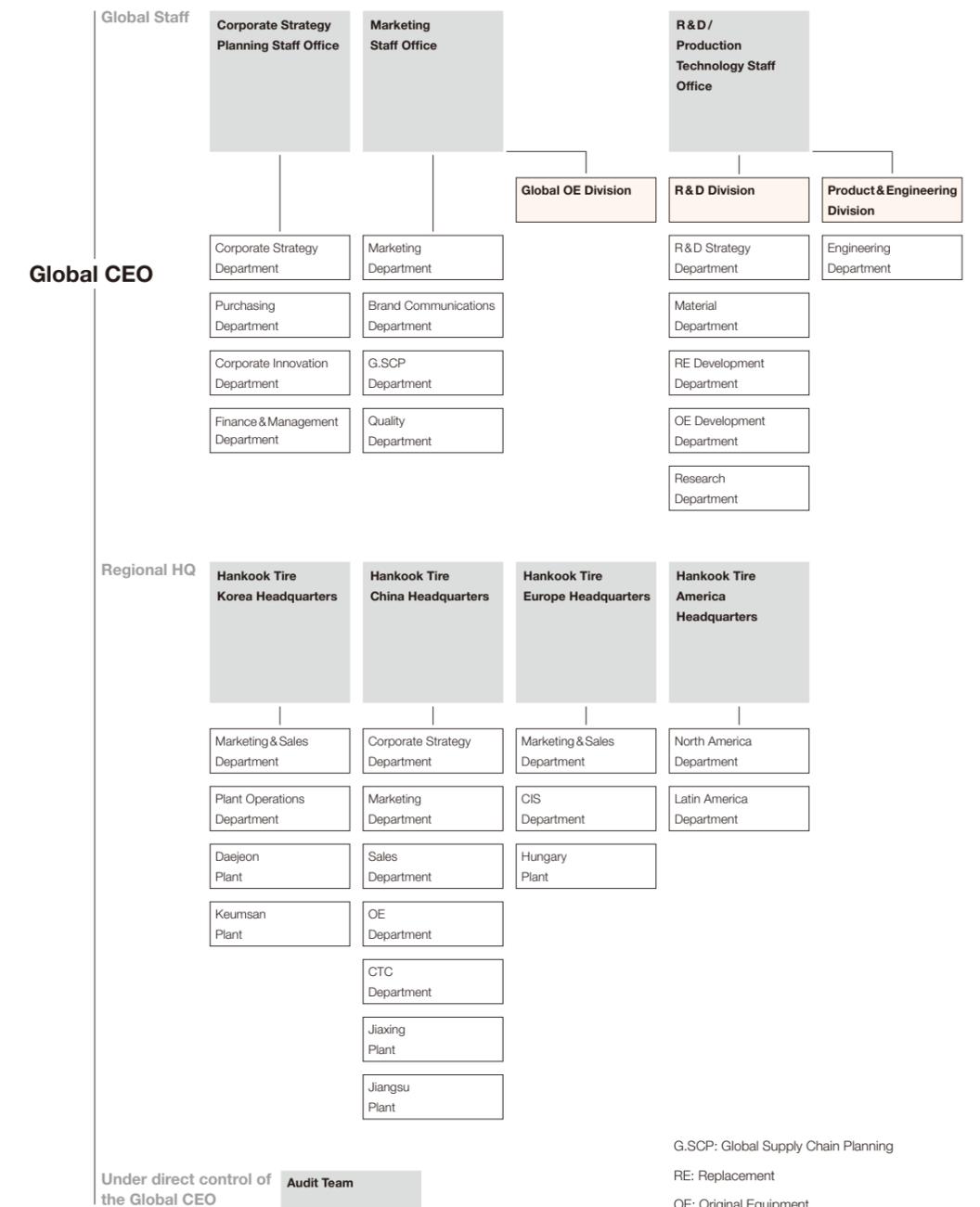
We restructured the organization in 2008 to (1) bolster marketing and sales competencies, and (2) raise operational efficiency. To achieve the first objective, the sales organization and staff were augmented in the former CIS, Middle East and Latin America. In addition, the Global OE Division was newly formed to integrate the OE business inside and outside Korea, thereby reinforcing OE service capabilities. A separate unit was put in charge of the OE business in China, laying the groundwork for offering locally-based services.

We addressed the second objective by combining functions that overlap among various

organizational units to create a synergy effect. A new department was established to serve as a control tower overseeing all procurement activities. The retail and distribution duties at the Hankook Tire Korea Headquarters were reassigned to the Marketing & Sales Department for greater efficiency. Moreover, we completed a new organizational design under a team-based structure, which is more economical for the company. We will soon implement the more rational approach to maximize overall efficiency.



## Organization Chart



G.SCP: Global Supply Chain Planning  
 RE: Replacement  
 OE: Original Equipment  
 CTC: China Technical Center  
 CIS: Commonwealth of Independent States

# Message from the CEO

## Turning crisis into opportunity and risk into rapid growth, we are elevating our global stature as a Leading Global Tire Company.

To Our Shareholders,

Our industry was faced with numerous challenging issues in 2008. Prices for oil and other raw as well as processed materials skyrocketed, and a global financial crisis erupted in September, causing the world economy to stall. The automotive sector was hit especially hard.

Despite the adverse circumstances, Hankook Tire managed to maintain robust growth, thanks in large measure to your unwavering support and to the creative and innovative efforts of our people. Our global sales in 2008 were up 24.4 percent from the previous year, surpassing KRW 4.46 trillion and our global tire sales for 2008 amounted to KRW 4.07 trillion. This very high growth figure outperformed many of the biggest names in the business and brought us a step closer to our vision of being a Leading Global Tire Company. This strong performance can also be attributed to our steadfast dedication to "quality first," our accelerated expansion of the global business network, and the increased synergy generated by that network.

All economic indicators are predicted to fall in 2009, yet we plan to remain on the growth track. We have set our global tire sales target at KRW 4.33 trillion, a 6.4 percent increase over the 2008 figure, and we aim to maximize our operating profit to reach KRW 286.5 billion, for an operating margin of 6.6 percent.

We will achieve these targets amid an uncertain global economic outlook by putting all operations in emergency mode. We will maximize operating efficiency, further raise our brand value, and adopt new sales strategies that will allow for market innovation. One of our strategically important goals is to increase the sales of our ultra-high-performance (UHP) tires and secure a leading spot in the premium tire market. We will also focus our R&D competencies on innovative new products to be ready for the arrival of the new market over the mid-long term.

In the immediate future, we must cope with the global recession while we take steps to realize our vision of being a Leading Global Tire Company over the long term. We will establish innovative sales strategies and make a companywide effort to strengthen our sales capabilities to overcome the current crisis. Through careful management at the local level, we will improve our inventory control, sales competencies and markets to achieve the 2009 targets and create a virtuous cycle of enhanced performance.

Second, we will go into emergency management mode and implement a crisis management system to boost operational soundness and be ready for the unexpected. Third, we will elevate our R&D capabilities to be first to introduce the latest product innovations, steadily raising our brand value. In this way, the competitiveness of both our brand and our products will strengthen. At the same time, we will be ready to secure an advantageous position for Hankook Tire in the new markets that will arrive after the financial crisis is over.

Our company has been in existence for seven decades now, and the going was not always easy. Along the way, we were able to deal with change swiftly and overcome numerous predicaments adeptly. Many difficulties are also expected in the coming year, but our people will continue to give their all so that performance goals are met and corporate growth continues.

I thank you, our shareholders, for the support and interest that you have shown to us, and I look forward to a successful 2009.

Seung-hwa Suh  
President & Global CEO



# Management

## The Management



**Yang-rai Cho**  
Chairman



**Seung-hwa Suh**  
President & Global CEO,  
CMO



**Hwi-joong Kim**  
President & CEO,  
CTO/CPO



**Ki-yeul Huh**  
President,  
COO/China HQ



**Jin-wook Choi**  
Executive Vice President,  
COO/Europe HQ



**Hyun-shick Cho**  
Executive Vice President  
COO/Korea HQ



**Hyun-bum Cho**  
Executive Vice President,  
CSFO



**Ho-youl Pae**  
Vice President,  
COO/America HQ

## Group Executive Council

Hankook Tire is operated by professional managers; ownership and management are strictly separated to maximize shareholder value. Every member of top management has specialized knowledge and management experience, and is devoted to achieving maximum business results. The Hankook Tire management system meets the global standard in terms of operational transparency and support for efficient and speedy decision making by the top executives.

Importantly, we convene committees to maintain an accurate grasp of the internal operational status and to discuss and understand the external environment most easily. Through these committee meetings, the companywide strategy direction can be considered comprehensively, and the Global CEO's vision and philosophy can be conveyed effectively to the company at large.

Our focus in 2008 was on fostering productive meeting habits in the company to enhance the decision-making process. As part of this campaign, we required key issues to be selected in advance for focused discussion, providing participants with sufficient time to come to a decision. We also standardized report presentation time and the volume of documentation. Employees were also encouraged to combine meetings when the agendas overlap in order to minimize wasted time. These efforts helped to reduce the office workload with regard to committee operation. They also reflect our determination to ensure swift decision-making on operational matters. As a result, the time spent in meetings was shortened considerably, and sufficient time was available for strategic decision-making by the Global CEO. At the same time, the Chief Officers of the Global Staff and Regional Headquarters have been empowered with decision-making authority, strengthening the ability to execute business in the field.

### Global Executive Innovation Committee

The Global Executive Innovation Committee (GEIC) is attended by the Global CEO as well as the rest of the senior executives to discuss the overall objectives and process of the Global Staff and Regional Headquarters. The GEIC convenes to decide on operational innovation activities performed in line with companywide strategies. The meeting of this committee is an opportunity for senior management to ascertain performance results from a global perspective and deliberate on the operational improvements achieved through various management activities. In-depth discussions on corporate-level decisions and issues requiring a consensus provide a unified direction for the company.

### Regional Executive Committee

The Regional Executive Committee (REC) is a meeting of the Regional Headquarters Chief Operating Officer and his top people to convey regional performance results and discuss the objectives and progress of management innovation activities at the regional level. This is also a forum for launching management innovation activities for implementing regional strategies. The Global CEO or other senior executives may sit in on the REC to coordinate strategies between the Global staff and the Regional Headquarters and offer support in deciding pending issues at the Regional Headquarters.

### Marketing Steering Committee

The Marketing Steering Committee (MSC) deliberates on the regional market situation as well as on the sales and marketing results for the Regional Headquarters. The MSC is attended by senior executives from both the Global Headquarters

as well as the Regional Headquarters. They carefully analyze market conditions and Regional HQ performance results and explore various action plans for maximizing sales and profitability within each region. The Global CEO and other senior executives may join the Marketing Steering Committee to accelerate decision-making on pending issues.

### Global Strategy Committee

Hankook Tire has also installed a Global Strategy Committee separate from the Board of Directors (BODs). This group of professionals helps to promote the global management system, establish a transparent operational environment, raise the effectiveness of companywide decision making, and maximize managerial transparency. The Global Strategy Committee is tasked with making decision on specialized issues.

### Executive Personnel Committee

- The Executive Personnel Committee was established to decide on all issues pertaining to Hankook Tire executives, including their promotions, appointments, evaluations and compensation. The Committee is an internal decision-making body that is attended by Board of Director (BOD) members such as the Global CEO and CTO/CPO. They evaluate the competencies of each executive, select new people for executive positions, and promote as well as assign positions to currently serving executives. Unlike the practice at many other companies, the Hankook Tire personnel management system handles executives separately from the lower level employees, helping to improve transparency and fairness in personnel affairs.

CEO: Chief Executive Officer  
CMO: Chief Marketing Officer  
CTO/CPO: Chief Technology Officer/  
Chief Production Officer  
COO: Chief Operating Officer  
CSFO: Chief Strategy & Financial Officer  
HQ: Headquarters

#### Performance Measure Committee

• The Performance Measure Committee is not a specialized committee under the Board of Directors. However, like the Executive Personnel Committee, this internal decision-making body is attended by BOD members such as the Global CEO and CTO/CPO as well as by other key executives. Committee members decide on categories for Performance Measure (PM) and they evaluate performance results. They make important decisions regarding compensation for organizational performance, calculating the global weighted average cost of capital (WACC) and sharing rate, settling and deliberating on compensation payments. The Performance Measure Committee meets regularly, three times a year.

#### HR & Organization Management Committee

• The Human Resources (HR) & Organization Management Committee is an internal decision-making body responsible for establishing, abolishing, integrating or restructuring organizational units. Committee decisions also cover who to hire, train and assign to those organizational units. The HR & Organization Management Committee is chaired by the CSFO and attended by key executives. Their duties include assessing the organization and personnel, examining and determining the organizational structure, calculating the number of people required, assigning people to their respective positions, and authorizing middle management transfers and expatriate assignments. The HR & Organization Management Committee meets regularly, twice a year, and can convene at other times if needed.

#### HR Evaluation & Compensation Committee

• The HR Evaluation & Compensation Committee is an internal body that convenes each quarter to decide major issues related to non-executive personnel policy. The Committee meeting is led by the CSFO and attended by key executives. They examine requests to adjust performance evaluations of middle managers (Team Managers) and annual salaries for employees. They also decide on middle management promotions. In addition to the regular meetings, the HR Evaluation & Compensation Committee may be called to deliberate and decide on such issues as the Hankook Tire Code of Ethics, rewards and disciplinary actions, or selecting employees to attend training programs outside the company.

#### Non-executive Directors (NEDs)

Name	Career
Won - oh Hwang	<ul style="list-style-type: none"> <li>· Graduated from Seoul National University in Economics</li> <li>· Completed a Course on Taxation at the University of Southern California Graduate School</li> <li>· Served as Head of the National Tax Tribunal under the Ministry of Finance</li> <li>· Was a Standing member of Securities and Exchange Commission</li> <li>· Served as President of Korea Minting and Security Printing Corp.(KOMSCO)</li> <li>· Was Chief Director at KMSPC (Non-standing)</li> <li>· Taught as guest Professor in College of Economics and Commerce at Daejeon University</li> </ul>
Hae - yung Min	<ul style="list-style-type: none"> <li>· Graduated from Seoul National University in Economics</li> <li>· Served as Vice Minister of Political Affairs I</li> <li>· Was Chief Director of Korea Technology Credit Guarantee Fund</li> <li>· Was Chairman of the Credit Finance Association</li> </ul>
Yong - sung Lee	<ul style="list-style-type: none"> <li>· Graduated from Seoul National University in Economics</li> <li>· Was Head of the Planning and Administration Office under the Ministry of Finance</li> <li>· Was Outside Director at Hynix Semiconductor Co. Ltd.</li> <li>· Was Outside Auditor for Hyundai Economic Research Institute</li> </ul>
Sun - kon Chang	<ul style="list-style-type: none"> <li>· Completed MBA at Korea University</li> <li>· Served as CEO of Hankook Tire Co., Ltd.</li> <li>· Served as CEO of Dongshin Petrochemical Co., Ltd.</li> </ul>

### Board of Directors of the Supervisory Board

Times are changing and society expects companies to be managed more transparently and systematically. Most global corporations today use their Board of Directors (BODs) and other designated bodies to protect shareholders' interests and elevate the levels of transparency and professionalism within the organization.

The Board has three main functions: (1) monitor the top executives on behalf of the shareholders, (2) offer advice on management issues to the top executives, and (3) help the top executives to secure the resources necessary for corporate success. The BODs of many global corporations are able to perform their control, service and resource dependence functions very well, backed by the long histories and traditions of their organizations. In Korea, on the other hand, numerous corporations failed under inefficient governance structures during the financial crisis of the late 1990s.

Hankook Tire is an exception. We were one of Korea's first companies to adopt an exemplary governance system that clearly separates the activities of management from the vested interests of the business owners. Under this professional management system, performance is the top priority. At the same time, the BODs controls the top management and a sound financial structure is maintained. A constant effort is also made to ensure decision making remains transparent and in the best interests of the company. In 2003, we announced our intentions to grow quickly as a market-driven company and we elucidated a corporate vision of maximum value to shareholders.

The Hankook Tire BOD is organized in accordance with the laws and regulations of the Republic of Korea, including the Commercial Act and Capital Market & Financial Investment Services Act. The stipulations to that effect are also included in the

Articles of Incorporation. A special set of rules and regulations also governs the operation of the BOD to ensure its management activities are efficient and accountable. The Hankook Tire Board of Directors consists of seven members, and the number of non-executive directors (NEDs) was increased from three to four in 2008 to raise BOD effectiveness further.

The NEDs for Hankook Tire have extensive experience in either government service or the private corporate sector. They are also upstanding citizens who have contributed exceptionally to society. The NEDs are selected in a transparent and fair process by the NED Nomination Committee, which consists of the non-executives currently serving on the Board. The NED Nomination Committee is mandated by the Hankook Tire Articles of Incorporation and has legal responsibilities and obligations to fulfill. Putting a majority of NEDs on the Board increases their control and monitoring functions, while they, with their wealth of experience and administrative skills, provide top management with valuable advice in support of decision making.

#### Roles and Composition of the Technical Committees

Hankook Tire has established committees under the Board of Directors to maximize Board efficiency and ensure legality in every respect. Part of the BOD authority is delegated to these committees, made up of specialists who systematically examine and settle issues within their area of expertise. Currently, there are three of these specialized bodies under the BOD: the Audit Committee, NED Nomination Committee, and Management Committee. The Articles of Incorporation allow the Board to establish more of these specialized committees if they are deemed necessary.

**Audit Committee**

The accelerated pace of global business has given rise to diverse risks previously unimaginable, urgently requiring various new auditing activities. In particular, the internal auditing role of managing and responding to potential risk must be bolstered. Therefore, the old reactive mechanism needed to be replaced by a system to anticipate problems through proactive monitoring.

A resolution passed at the General Shareholders' Meeting in 2001, authorizing the establishment of an Audit Committee under the BODs. The Committee, which has been in operation since that time, consists of three non-executive directors for maximum independence, and they have the right to veto the selection of the internal Auditor for the company. The Audit Committee members also assist in the company audits, serving as an overseer and regulator working on behalf of the shareholders.

Hankook Tire's internal regulations stipulate that the Audit Committee have ready access to the necessary performance data to perform its own audits. The Committee meets regularly each quarter, and additional meetings may be called whenever necessary. The company regulations also empower the Audit Committee to request reports from the Board of Directors or examine the company's financial standing at any time, helping to ensure operational transparency.

**NED Nomination Committee**

The NED Nomination Committee is operated as a technical committee under the Board of Directors to ensure fairness and independence in the nomination of all NEDs. The Committee consists of five members, of which the NEDs outnumber the internal directors. This is yet another way that Hankook Tire helps enhance transparency and fairness.

The NED Nomination Committee was established as a technical committee under the Board of Directors in 2007, after a resolution was passed at the General Shareholders' Meeting. The stipulations on the establishment of the Committee and related regulations are included in the Hankook Tire Articles of Incorporation. The NED nominations are confirmed by vote at the General Shareholders' Meeting.

**Management Committee**

Several years ago, Hankook Tire established a global management system to carry out diverse management initiatives to ensure survival within a hotly contested industry. Since then, the responsibilities of the Board of Directors (the only decision-making organization) have increased substantially, as a result the Hankook Tire Board had convened 21 times a year as of 2006, which is more than, the average number of 17 meetings held by listed companies in Korea.

A resolution was passed at the 2007 General Shareholders' Meeting authorizing the establishment of the Management Committee as a technical committee under the Board of Directors in 2008. This Committee deliberates and decides on general management and financial affairs, which represent the most frequent aspects of management activities.

The Management Committee helps to raise corporate professionalism and efficiency by simplifying the procedure for calling BOD meetings and by accelerating the decision-making process. The regular BOD meetings become a forum for discussing the most important issues, and the Board activities can be performed systematically, as befitting a truly global corporation. Managerial accountability is promoted at the same time. Within five days of each meeting, the Hankook Tire

**Performance Assessment**

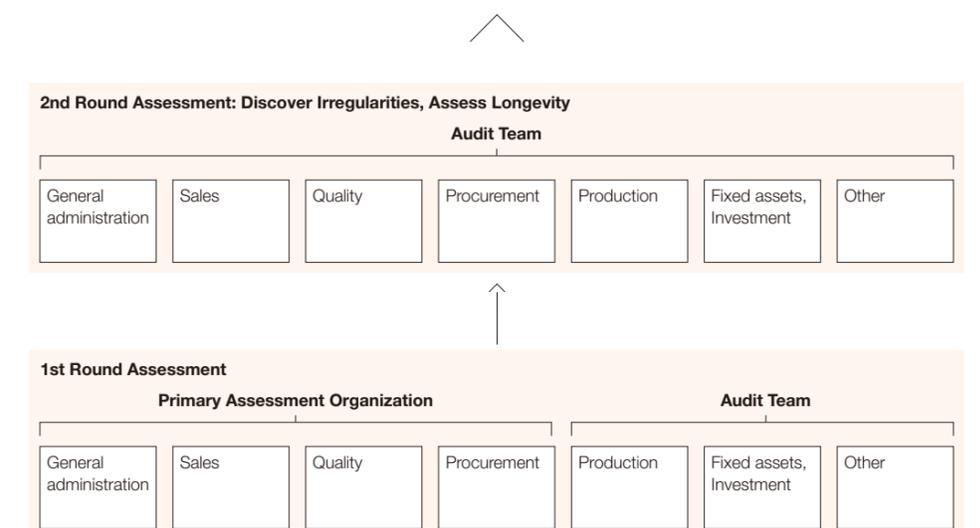
Management Committee is obligated to present the minutes and an explanation of the resolutions passed to the non-executive directors. During the following two days, the NEDs may call a Board meeting to deliberate further on the agenda deliberated on by the Management Committee. Should any of the resolutions passed by the Management Committee be vetoed during the ensuing Board meeting, then the issue is automatically disallowed according to the Management Committee regulations. Thus, Hankook Tire's efforts to maximize shareholder and corporate value have resulted in the kind of transparent decision-making procedure for the Management Committee that befits a truly global management system.

Hankook Tire has adopted a Code of Ethics to promote transparency and integrity in business conduct and ensure stable profitability for shareholders over the long term. Our Audit Team performs various assessments to expand the function of monitoring work processes, identifying sources of waste, and prevent inefficiency through various management diagnosis programs. Moreover, the role of front-line inspections with separate teams responsible for general monitoring, sales, quality control, procurement and production. From the first quarter of 2008, the new Management Diagnosis Committee began to oversee all monitoring and assessment processes from the corporate level.

**Hankook Tire Performance Assessment Process**

Units under Assessment: Global Staff, Regional Headquarters (Korea, China, Europe, America)

**<The Management Performance Committee >**  
 Integrated operation of performance assessment has given rise to a constant monitoring system



# Management Report

## Key Figures for 2008 036

Economic Variables

Financial Highlights

Stock Data

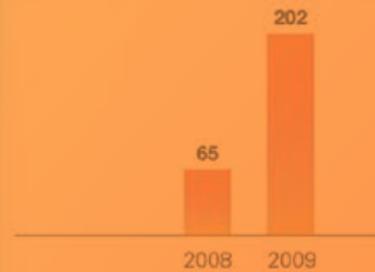
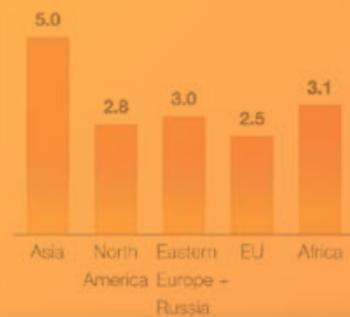
## 2008 Business Review 040

Performance by Region

Performance by the G.OE Division

Performance by Product Line

## Major Activities in 2008 044

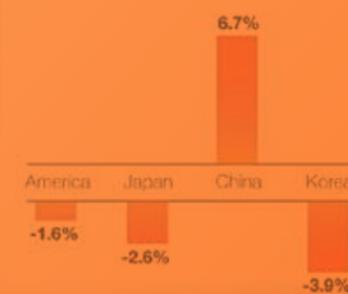
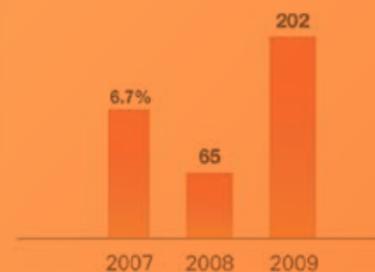
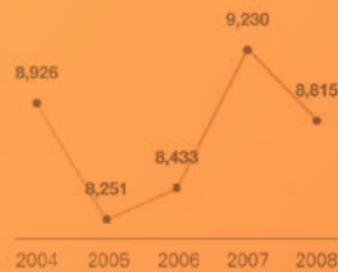
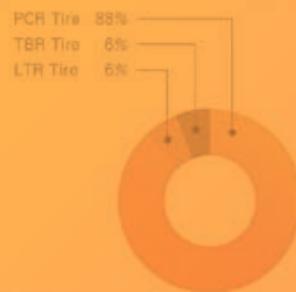


2008 Sales Growth (YoY)

24.4%

2008 UHP Tire Sales Volume Growth (YoY)

22%



2008 Cost Reduction

KRW 33.8 billion

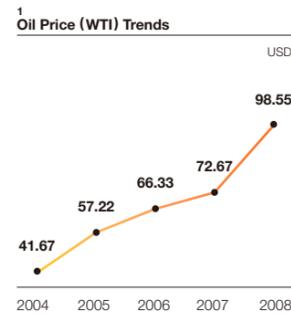
2009 Investment Planned for EHS

KRW 20.2 billion

### Hankook Tire is growing as a global leader in tandem with customers and shareholders.

We earned KRW 208.8 billion in operating profit on KRW 4.46 trillion in sales during 2008, and our ceaseless innovation efforts and fervent passion are in evidence throughout the world. Our sales rose 24.4 percent year on year despite the very difficult economic conditions, demonstrating once again our powerful potential. We are preparing for the future through a relentless R&D effort, ongoing commitment to top product quality, and aggressive marketing program. We are ready for the advent of major changes as our industry paradigm shifts on the global stage. We have applied new technologies to reduce costs dramatically and upgraded production facilities as an investment in the future. We are also developing technology that can better preserve the environment, and we strive constantly to raise internal efficiency and performance. These efforts are why so many around the world expect great things from Hankook Tire today and tomorrow.

# Key Figures for 2008



## Economic Variables

Global crude oil prices reached unprecedented levels in the first half of 2008, and the prices for all five of the main raw materials (including crude oil) for tires were high. Supplies of raw materials were unstable and speculative capital inflows drove up prices exponentially. Prices surged 46 percent for West Texas Intermediate (WTI) and 53 percent for Dubai Crude between the end of 2007 and early July 2008. The soaring prices drove up our production costs substantially.

The financial crisis that began in the US in the second half quickly spread worldwide, and the value of the Korean currency plunged against the US Dollar, heightening Hankook Tire's exposure to exchange rate risk. Thus, the volatility in prices for oil and other raw materials as well as in exchange rates presented many challenges and difficulties.

### Oil Prices

The yearly average for WTI rose from USD 41.67 in 2004 to USD 98.55 in 2008, rising 24 percent per annum over five years. The benchmark crude price began to soar early in 2008 to peak at over USD 140 in July. However, the steady global economic downturn from September caused demand for oil to fall sharply, and the WTI price dropped to under USD 40 a barrel. The wild fluctuation in oil price during a single year makes prediction very difficult indeed. However, demand for oil is predicted to remain low as long as the global economic crisis persists, and another spike in oil prices is highly unlikely.

### Natural Rubber

Natural rubber prices have risen an average of 22 percent per annum over the past five years. In 2008, the price surged 35 percent year on year, with the peak occurring during August and September,

followed by a steady drop from October. Natural rubber represents 32 percent of the cost for the materials used in tire production, therefore the rising price has a tremendous effect on the company's bottom line. The continued economic slowdown during the first half of 2009 is expected to decrease demand for natural rubber, and the price is most likely to remain steady. However, natural rubber prices are expected to rise again during the second half.

### Synthetic Rubber, Carbon Black & Textile Cord

The prices for synthetic rubber, carbon black and textile cord have all risen over the past five years by averages of 17 percent, 19 percent and 3 percent, respectively. The prices for these basic materials are directly influenced by the price of oil. Thus the sharp spike in oil price during 2008 caused the price of synthetic rubber to rise 40 percent, carbon black, 34 percent, and textile cord, 2 percent. These three items comprise at least 40 percent of the material costs for Hankook Tire, and their surging prices significantly increased overall production costs in 2008. Prices and demand for basic materials are expected to decline during the first half of 2009, but producer's cutbacks in output should cause prices to rebound later in the year.

### Steel Cord

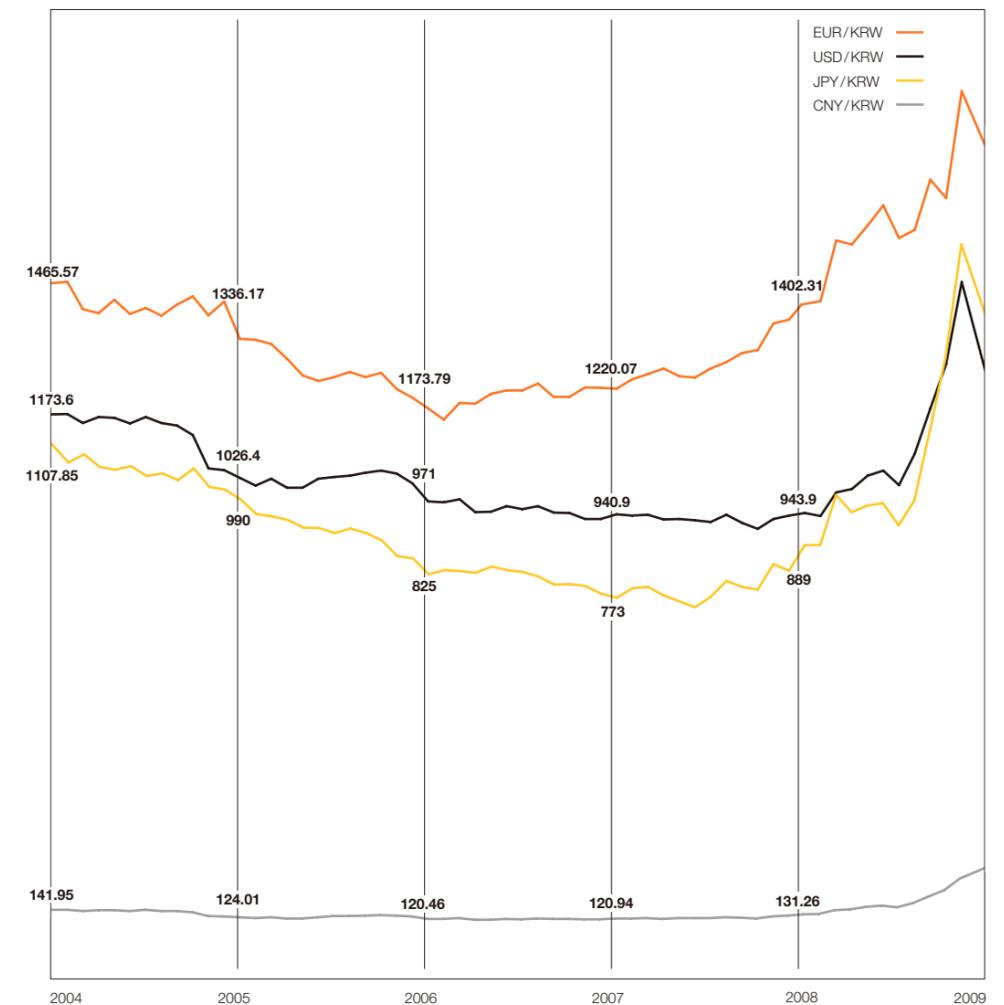
Prices for iron ore and wire rod have increased at an average annual rate of 2 percent over the past five years. In 2008, the price jumped 7 percent year on year because the Chinese government reduced the value-added-tax refund and imposed an export tax on Chinese-made steel cord. In 2009, price cuts by Chinese-made steel cord suppliers will cause steel cord prices to drop generally during the first half. Those prices are expected to rise again in the second half of the year.

## Exchange Rates

During the first half of 2008, the exchange rate was stable, with one US dollar being traded at around 980 won. However, the global financial crisis that erupted during the second half triggered an unprecedentedly severe exchange rate volatility. The global economic crisis caused capital to flow into dollars, which were viewed as the most stable asset

option, and the Korean Won began to depreciate against the US Dollar. A credit crunch began to spread globally from September and dollars were in short supply, causing the Korean Won to weaken excessively. The severity of the exchange rate fluctuation prompted Hankook Tire to focus on reducing risk through precise exchange rate monitoring and management.

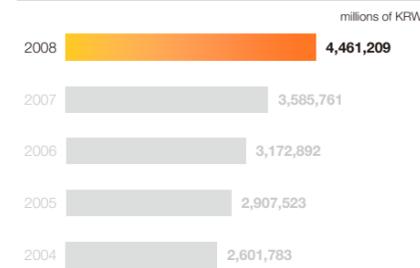
### Exchange Rate Trend



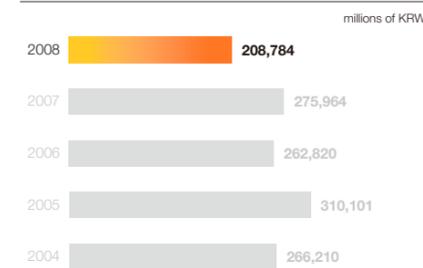
**Financial Highlights**

Our global sales in 2008 surpassed KRW 4.46 trillion, up 24.4 percent year on year. However, due to the skyrocketing oil and raw material prices and the economic crisis in the second half of 2008, operating profit was lower than in the previous year. Yet, the operating margin of 4.7 percent proves that Hankook Tire defended well against with the unfavorable economic conditions of 2008.

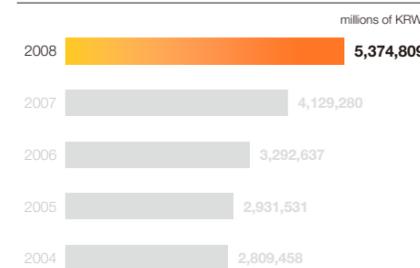
**Sales**



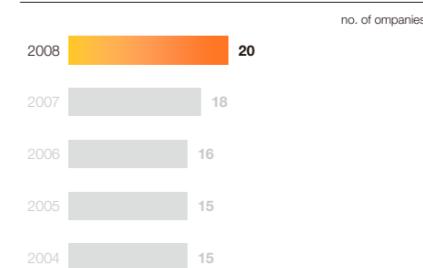
**Operating Income**



**Total Assets**



**Consolidated Companies**



**Stock Data**

Stock Market Data	2008	2007	2006	2005	2004
Year High (Unit: KRW)	18,400	21,500	15,800	14,700	11,550
Year Low (Unit: KRW)	9,800	13,800	10,350	9,890	7,420
High/Low	0.53	1.56	1.53	1.49	1.56
Fiscal year-end final offering (Unit: KRW)	15,300	17,900	15,800	14,250	10,200
Annual KOSPI floating rate index	(14.53)	13.29	10.88	39.71	13.33
Total number of shares (Unit: shares)	152,189,929	152,189,929	152,189,929	150,189,929	150,189,929
Market capitalization (Unit: trillions of KRW)	2.33	2.72	2.40	2.14	1.53
Average daily trading volume (Unit: shares)	973,816	1,019,911	702,024	566,787	727,186
Average annual trading volume (Unit: shares)	241,506,338	250,898,071	173,400,038	141,129,943	181,069,225
Total number of floating shareholders (Unit: people)	28,919	32,305	18,632	14,612	16,279
Dividend per share (Unit: KRW)	150	250	250	250	250

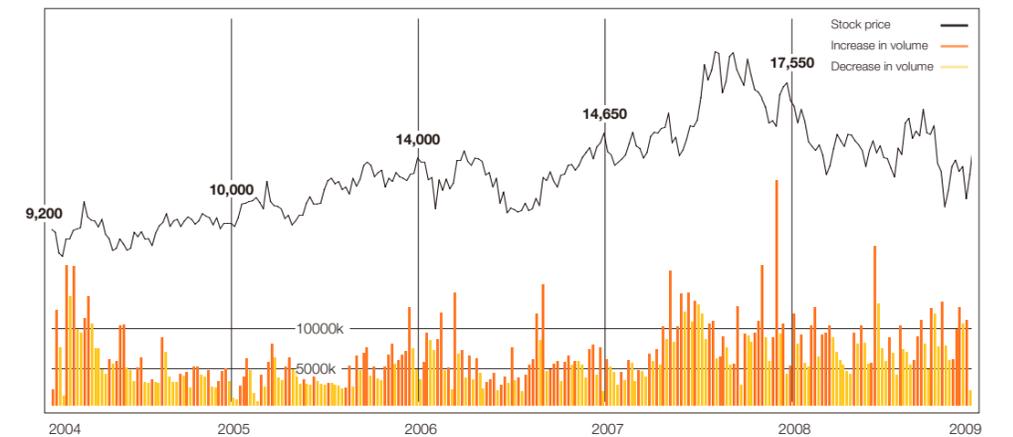
(As of Dec. 31, 2008)  
 Listed on the Korea Exchange (KRX)  
 Listed in the Stock Market Division of the Korea Exchange  
 ISIN Code: KR700024002  
 Par Value: 500 KRW  
 Trading Unit: 1 share  
 Total number of voting shares: 145,189,929

**Data Per Share**

	2008	2007	2006	2005	2004
Net income (Unit: millions of KRW)	25,412	162,306	170,173	213,775	166,028
Earnings per share / Net income (Unit: KRW)	173	1,095	1,152	1,462	1,136
Pay-out ratio (Unit: %)	85.7	23.30	21.77	17.10	22.01
Dividend payout ratio (Unit: %)	0.98	1.30	1.67	1.88	2.46

Based on Korean GAAP

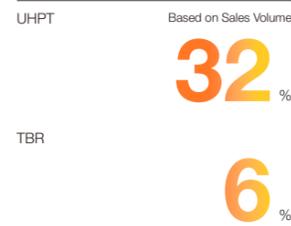
**Stock Price Trend (2004-2008)**



# 2008 Business Review

## Performance by Region

<sup>1</sup> 2008 Annual Growth Rate for the Korean Market



### Korea

Koreans reduced their driving and delayed tire replacement, causing tire demand to fall. At the same time, prices for crude oil and other raw materials rose sharply while the value of the Korean currency fell. As a result, profitability declined and the competition among tire manufacturers were fiercer than ever.

Despite the slow market, Hankook Tire Korea Headquarters improved its price - mix and launched various sales promotions in order to maintain profitability and increase sales volume. New products were introduced to cater to changing customer needs and prevail in the hotly contested tire business. Hankook Tire's most recent offerings include the XQ Optimo Nova, the latest addition to the XQ Optimo line of premium comfort tires, and the Ventus V4 ES, an entry - level ultra - high - performance ("V" rated) tire. Importantly, the company launched the unique "enfren" line of environment - friendly tires. The new products served to boost sales of value - added products, with <sup>1</sup>UHP tire sales volume rising 32 percent year on year.

Meanwhile, the Hankook Tire Korea Headquarters introduced new truck and bus radial tires (TBRs) ahead of schedule to accommodate changing vehicle trends and secure the leading market position. <sup>1</sup>The quality of services for both new and rebuilt tires were improved significantly, helping to boost TBR sales volume 6 percent year on year. Hankook Tire also launched the e - Cube, Korea's first environment - friendly truck and bus radial tire, which marks a new standard for TBR technology.

We expanded our network of retail franchises, opening the 200th T'Station in the country. The effort to expand both product offerings and sales outlets enabled Korean operations to continue growing amid extremely difficult market conditions.

### China

Contraction in the real global economy, inflation and other external economic variables affected exchange rates and slowed China's economic growth rate. Concerns over rising prices and an overheated economy resulting from prolonged rapid expansion had previously prompted the Chinese government to maintain a restrictive monetary policy. However, the government was forced to implement domestic stimulation measures in response to the global downturn. The single - minded pursuit of economic growth gave way to a policy of encouraging sustainable, high - quality development.

China's automobile industry, which had enjoyed robust growth, was also targeted by the government's belt - tightening measures, and the bubble in the Chinese asset market burst. These negative factors were compounded after the financial crisis erupted in the United States, and automobile sales began to decline in the second half of 2008. Tire sales also dropped on declining TBR demand, and tire makers engaged in a price war. Competition was exacerbated by the expansion of retail networks for each brand.

However, we pursued a strategy for making Hankook Tire a top - tier player in China and aggressively promoted the passenger car radial (PCR) lines, including the value - added UHP tires. <sup>2</sup>As a result, PCR sales volume rose 12 percent year on year (with UHP tire sales volume surging 78 percent during the same period). At the same time, the sales volume for TBRs was 12 percent higher than it was a year earlier.

Increasing sales was a difficult task in the Chinese market given the worsening business climate, but much room for growth remains. In 2009, separate expansion strategies will be implemented by each function to maintain the growth momentum.

<sup>2</sup> 2008 Annual Growth Rate for the Chinese Market



<sup>3</sup> 2008 Annual Growth Rate for the Europe Market



### Europe

The European economy began to contract in the second quarter of 2008. For Western Europe (the EU), this was the first negative growth posted in fifteen years - since the - 0.3 percent GDP rate of 1993. The number of new vehicles registered in May 2008, was some 10 percent lower than the figure a year earlier, the decline in these numbers increased with each passing month. Eastern Europe, which had been a major driver of the world economy, saw economic growth plummet from the third quarter. Falling demand for automobiles had an immediate effect on the tire industry, and tire demand dropped across all segments.

However, Hankook Tire, buoyed by a decade of steadily rising brand value, demonstrated its powerful potential in adversity and maintained positive growth in this key region. <sup>3</sup>We put a priority on expanding sales volume, and PCR sales rose 8 percent to EUR 480 million. UHP tire sales, which posted the highest growth in volume companywide in 2008, increased in Europe by 33 percent. European sales volume of PCRs improved by 8 percent, while the light truck radial tire (LTR) sales volume were up 6 percent for the year.

Meanwhile, Hankook Tire opened new Overseas Sales Offices in Kiev (Ukraine) and Almaty (Kazakhstan) to expand the sales platform for Eastern Europe and the former CIS, two regions with tremendous business potential. Supported by the new plant in Hungary and these new Overseas Sales Offices, the company will continue to expand the sales network throughout Europe and beyond.

### The Americas

The financial meltdown that originated in the United States affected all of North America severely, making 2008 a very difficult business year. Moreover, the

crisis at the US "Big 3" automakers (GM, Ford and Chrysler) had a direct impact on the global tire market. Unprecedented oil prices caused demand for light trucks and SUVs to plummet in the US. The spreading financial crisis subsequently affected demand for vehicles of all types. Major tire makers curtailed production, downsized workforces and cut prices drastically.

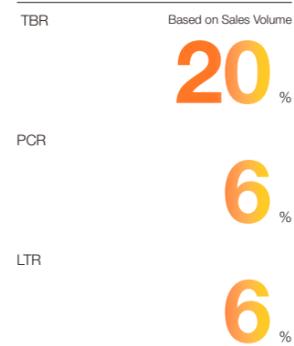
Despite the extremely negative conditions, the Hankook Tire America Headquarters continued to expand the retailer network as part of a sales growth strategy. <sup>4</sup>The plan worked, as in North America sales volume of passenger car radial tires (PCRs) rose 8 percent and light truck radial tires (LTRs) rose 14 percent. UHP tires sales volume improved by 19 percent year on year.

The Latin America Department, which was previously under the L.A.A.M. (Latin America, Asia - Pacific, Africa and Middle East) Headquarters, was incorporated into the America Headquarters in the second half of 2008. A new Overseas Sales Office was also opened in Bogota (Colombia) to expand the sales platform in the promising Latin American market.

In 2008, Latin America experienced unstable prices and exchange rates as a result of the global economic downturn. The economy slowed and consumer sentiment weakened. However, the growth potential remains much higher than in the advanced economies, and Hankook Tire posted impressive growth figures, in sales volume, for the year: 55 percent for PCRs, 102 percent for LTRs and 70 percent for TBRs. Sales volume of UHP tires were also 36 percent higher than in 2007.

The incorporation of the Latin America Department also allows for unified policies regarding products, pricing and distribution for all of the Americas.

<sup>5</sup> 2008 Annual Growth Rate for the Middle East, Africa & Asia - Pacific



**The Middle East, Africa & Asia - Pacific**

Surging oil prices stimulated economic activity in the oil producing states of the Middle East and Africa, but these economies started to falter on slowing demand after the prices dropped in the second half. On the other hand, the construction boom boosted sales volume for TBRs and GP2 (general performance 2) tires. Overall, the tire market conditions were relatively better in the Middle East and Africa than elsewhere in the world, and Hankook Tire posted a sales volume growth of 20 percent year on year, including 6 percent gains for both PCRs and LTRs. The UPH tire sales volume was also 6 percent higher in the Middle East, Africa and the Asia - Pacific than it had been the year before.

Meanwhile, we launched aggressive sales campaigns in resource - rich emerging economies in 2008 and the effort will continue in 2009.

Unlike the Middle East, conditions in the Asia - Pacific were difficult with stagnant activity in the major markets of Australia and Japan. However, Hankook Tire managed to increase sales in niche markets in Southeast Asia, resulting in a satisfactory improvement in overall regional performance for the year. Sales growth is expected for 2009 as well.

The L.A.A.M. (Latin America, Asia - Pacific, Africa and Middle East) Headquarters was restructured in 2008. The Latin American Department was integrated into the America Headquarters, while responsibility for the Middle East, Africa and Asia - Pacific was assumed by the Marketing Staff Office. In 2009, marketing activities will be tailored specifically to accommodate each of these regions.

**Performance by the G.OE Division**

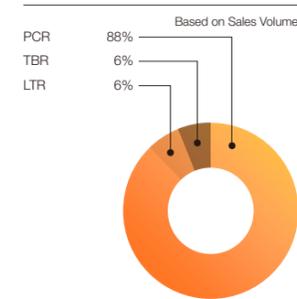
The financial crisis of 2008 caused the global automobile market to contract, and our sales of original equipment (OE) tires to drop 8.7 percent year on year to about USD 700 million. The main reason for the decline was the crisis at the Big 3 US automakers. The crisis soon spread to other automakers as well, and supplies of OE tires dropped in most regions of the world during the second half.

The OE tire market results by region in 2008, with the change year on year in parenthesis, are: Korea, KRW 410 billion (+0.7%); China, RMB1.1 billion (-5.7%) and Global OE (Areas excluding Korea and China), USD 180 million (-3.2%).

OE tires represented approximately 30 percent of all the tires sold by Hankook Tire in 2008, a large portion of the sales mix. In addition, tires sold as original equipment will directly influence vehicle owners' purchase decisions when replacement tires are needed. Thus, we fully appreciate the importance of the OE tire business on corporate profits and employ specialized marketing approaches for each of the world's automakers.

The global automobile market is expected to remain sluggish in 2009. New vehicle sales are forecast to total 65.9 million units, which would be 3.1 percent lower than the number sold in 2008. Virtually all companies associated with the automobile sector are planning conservatively, as they are all affected negatively by the falling sales of new vehicles. We aim to overcome the crisis by concentrating resources selectively to improve the profitability of our OE business.

<sup>1</sup> 2008 Radial Tire Sales Mix



**Performance by Product Line**

Sales volume increased by 3 percent for 2008.

The growth figure was not very high, but the achievement of continuous growth in the midst of a worldwide financial crisis is relevant.

Radial tires represent 98 percent of all the tires we sell. Radial tire sales for 2008 break down as 88 percent for PCRs, 6 percent for LTRs and 6 percent for TBRs, which were about the same proportions as in 2007. However, the sales volume for the more profitable UHP tires was 22 percent higher year on year, demonstrating the growth in 2008 was qualitative as well as quantitative.

Importantly, the sales growth was also well balanced among the various global regions.

<sup>2</sup> 2008 UHP Tire Sales Growth Rate



# Major Activities in 2008

Keumsan Plant



Hungary Plant



Our performing well in 2008 despite the global economic downturn was no accident. It was the result of our relentless efforts to consider the customer and maximize efficiency in every stage of the business, from raw materials procurement to production, logistics and sales.

Here is a look at how Hankook Tire performed around the world, and the results will demonstrate our potential for becoming a Leading Global Tire Company.

## Stronger Production Competencies

The Korean tire market environment was made increasingly difficult by sluggish domestic market demand and high oil prices, and competition among tire manufacturers was severe. Refusing to bow to these pressures, we have gone ahead with our expansion of the Keumsan Plant to accommodate the growing sales of our most lucrative products - UHP tires and premium tires. The KRW 275.5 billion expansion project is proceeding in two stages. Stage 1 was finished in 2008, and Stage 2 is scheduled for completion in March 2010. At that time, total annual output will have been increased from 17.7 million tires to 22 million tires. The Keumsan Plant will be better equipped to produce UHP tires, which are in rapidly increasing demand, and we will accelerate our advance in the premium tire markets of the world.

The Hankook Tire Hungary Plant went into operation in 2007. We identified seven priority tasks in order to minimize trial and error at the initial stage of production. Innovations were made throughout the operation to reach full production quickly. This local production capability in Europe boosts our sales competencies and reduces logistics costs.

In addition to these tangible advantages, the plant has raised public recognition of and consumer

preference for the Hankook Tire name. Our improved shipping services have elevated customer satisfaction as well, boosting brand value. Finally, sales have expanded from the advertising campaign we launched in Western Europe and the new markets that we have developed. Our aggressive marketing approach in Europe will result in a steadily rising sales volume.

## Preparations for IFRS Adoption

International capital flows require corporate financial reporting to be transparent and readily comparable regardless of company location, necessitating a single accounting standard that is applied worldwide. Hankook Tire is now getting ready to adopt the International Financial Reporting Standards (IFRS), which will be required of all listed companies in Korea by 2011. The new standards must be thoroughly understood in advance, and meticulous planning is needed. We must also anticipate all the potential effects of adopting a new system of accounting standards. Our preparations for the IFRS are proceeding in three stages: Stage 1 began in June 2008 and was completed on September 11 of the same year, with a total of 30 projects being performed to ensure precision. During Stages 2 and 3, the necessary global policies and accounting infrastructure will be established, and a pilot program will be carried out in 2010. By adopting the IFRS, the accounting data of Hankook Tire will be prepared according to a global standard, and trust in the company will be enhanced.

## New Distribution Channels

We are committed to securing diverse distribution channels to expand our global presence. Starting in Korea, the tire distribution system was improved significantly during 2008. Our domestic distribution

## <sup>2</sup> 2008 Chinese Distribution Network Expansion



T'Station



Tire Town



network was expanded by about 200 locations as we opened our 200th T'Station (premium sales franchise) and our 300th Tire Town (multi-use network for both dealers and customers) store. The TBX network, which serves buyers of truck and bus radial tires (TBRs), was also expanded to more than 160 locations. Concurrently, sales programs were strengthened to boost sales, steadily increasing our dominance over tire distribution in Korea.

China is attracting attention as a "second home market" for Hankook Tire, and we have been working hard to secure distribution channels there. An additional 10 T'Stations were opened in China in 2008 (300% increase YoY), along with more than 280 new Tire Towns (164% increase YoY) and over 60 new TBX shops (135% increase YoY). T'Station and Tire Town are franchises that carry premium tire lines, and we are opening them in major cities to serve the growing number of Chinese who drive luxury automobiles.

In Europe we expanded and reorganized a distribution network centered on Hankook Masters. By establishing our own distribution channel and leveraging our OE business, we have been able to partner with automobile dealerships. We are also pursuing business with large-scale purchasing cooperatives and continue to develop relations with small and medium-sized dealers in strategically important regions to ensure stable demand.

As for the U.S., we opened a new warehouse in Chicago in April 2008 to enhance our services to dealers in the Americas while attracting additional dealerships to carry Hankook Tire products. An online ordering system was opened for all American dealers in October, providing a major improvement to dealer services. Meanwhile, we have been developing dealership arrangements with retailers and expanding our business with automobile

dealers. We also started working with Tire Rack, the largest online tire sales service in the United States, as we expand our distribution channels into cyber space.

We have been expanding our chain of Model Shops, which are premium tire retailers, in Latin America, the Middle East, Africa and the Asia-Pacific. This effort is enhancing our brand value in the major cities of these regions. Aggressive shop branding and shop-in-shop programs at retailers are also raising recognition of the Hankook Tire name.

## Better Work Environments, Better Worker Protection

Concern about people, the environment and sustainability has been on the rise globally since the late 1990s. The movement has rapidly spread to the corporate sector, which must respond with new management approaches for preserving nature and enabling sustainable living. Korean companies have joined the global trend as public expectations grow for LOHAS (Lifestyles of Health and Sustainability) and environmental protection issues. The government has also tightened its environmental regulations, and corporations have emerged as the social platform that can lead the effort to preserve the environment. Companies today are faced with two tasks that they must fulfill without fail: satisfying customers and complying with environmental regulations.

Hankook Tire considers workplace environment enhancement as an important part of sustainability. In the process of manufacturing tires, the generation of heat and odor is unavoidable. Thus, heat and odor levels at the plants in Korean and Chinese were assessed in 2008, and a plan was devised for making working conditions better. One immediate result was the improved air conditioning at the

### <sup>1</sup> 3 Stage Preparation for IFRS Adoption

	Objective	Main Tasks
1st stage	Establish a Master Plan	- Analyze the effects of IFRS before adoption
2nd stage	Implement IFRS preparation tasks	- Establish global accounting and reporting policies - Reinforce accounting infrastructure - Establish management policy
3rd stage	Normalize IFRS implementation	- Produce the first IFRS-based financial statements

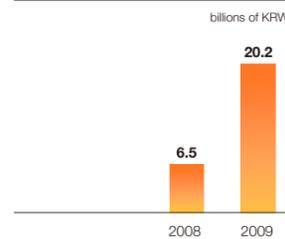
Infrimary in Hankook Tire



Sports facilities in Hankook Tire



<sup>3</sup> EHS Investments



vulcanization process, which lowered the ambient temperature by 8.5 percent. The installation of new equipment to reduce odor levels, was completed in March 2009.

Hankook Tire invests steadily to protect the environment from pollution as well as workers from accidents and occupational illnesses. An outlay of KRW 6.5 billion was made to improve environmental quality and an additional KRW 20.2 billion is planned for 2009.

We are well aware that environment, health and safety (EHS) issues are not just determiners of corporate competitiveness; they must be addressed for corporate survival. Therefore, the commitment to EHS enhancement is ongoing and determined.

**New Technology for Premium OE Tires**

Hankook Tire supplies original equipment (OE) tires to some of the world's leading automobile manufacturers. Superior technology competitiveness is the key to this business, for the company must provide tires that satisfy the handling and environmental specifications for each automaker. A dedicated R&D project was launched in 2008 to develop core technologies that can accommodate the diverse OE tire requirements at Ford, GM, Volkswagen, Audi and others. We are working on cutting-edge technologies for better matching tire and vehicular performance, for making tires lighter in order to improve fuel mileage, and for improving wear resistance and preventing uneven wear. Another project is underway to research technology related to vehicular safety as it pertains to better handling performance. Already, key design technologies for the OE segment have been obtained from this concerted effort, which will continue in 2009 to obtain additional OE certifications for premium tires and secure a technological edge over other tire makers.

**Environment - friendly Technologies**

Today, environmental protection is not just a social obligation for tire manufacturers, it is a prerequisite for operating globally. Hankook Tire is in step with this trend, working with dedication to obtain environment - friendly technologies. We put special emphasis on developing cleaner tires in 2008. Europe is scheduled to impose new restrictions on polycyclic aromatic hydrocarbons (PAHs) in 2010, and we have responded by completing the development of 23 different Low -PAH rubber compounds. Another fuel - saving rubber compound has been developed to reduce rolling resistance. Our research effort does not stop at developing the expertise for making environment - friendlier tires; we are fulfilling our corporate social responsibilities by building systems and honing the skills needed to analyze air quality. Specifically, we analyzed odor - causing particles and identified their sources, and this knowledge will be applied to design new odor - prevention systems for the plants.

**Automated Global Supply Chain**

In 2008 a project was carried to build the platform for a global supply chain management (SCM) system. As part of this project we created systems for (1) global shipment tracking, (2) automated shipping documentation and (3) automated purchasing documentation. The global tracking system can verify the location of any shipment in real time, from the moment it is loaded onboard the ship until delivery is completed at the final destination. Customers can also use the system to check the progress of their shipments and receive the estimated time of arrival by email. Thus, the work of verifying inventory in transit has been simplified. Time is saved as well as labor and material costs. Meanwhile the automated shipping documentation

system shortens lead time for Customs clearance and document delivery in the country of destination. Logistics costs are lowered and paperwork is more efficient.

The system for automated purchasing documentation allows for export payment to be completed on the same day that the deal is concluded. Purchasing time is shortened significantly, and payment can be received much more quickly. The trouble of having to draw up documents and visit a bank is eliminated, and banking transactions with Hankook Tire proceed more efficiently.

This automation of global logistics has made possible a system for monitoring material flow in real time via the internet. An electronic data interchange (EDI) system based on e - business Extensible Markup Language (ebXML) allows for system integration among multiple companies and accommodates an internationally open standard that facilitates response to changing ways of working in a changing IT environment.

Global logistics automation - namely global shipment tracking, automated shipping documentation and purchasing documentation - shorten lead time in the supply chain, support the paperless office, and help to raise customer satisfaction. The people handling global SCM at the Hankook Tire Head Office will first use this automation for export transactions, and then the system will be applied at the overseas plants to complete the global supply chain monitoring capability.

**Production Cost Reductions**

The year 2008 was a trying time for the tire industry, which was hit by a double whammy. Oil prices started to climb from early in the year, and prices for other raw materials quickly followed suit. In the second half, the industry experienced a global economic shock of exceptional severity. Hankook Tire responded by cutting production costs and improving expenditure efficiency.

As part of a management innovation drive, a consensus was formed among employees concerning the importance of efficient budgeting. They embarked on a campaign to cut costs, raise productivity and improve organizations and processes. This cost rationalization effort produced tangible results internally as well as externally.

The first step was to outsource maintenance, repair and operating (MRO) consumables, which improved the transparency of procurement and cut procurement costs. Second, the procurement channels were diversified and the practice of supplier - centric transactions was changed to focus on the buyer. Third, an upgraded system was installed to improve internal administrative processes, saving both time and money. The combined effect of these activities was an estimated KRW 6.4 billion reduction in costs for the year.

Meanwhile, the Main R&D Center selects a target category each year for focused development of cost - cutting technology. This research program found ways to lower expenses by KRW 25.3 billion in 2007 and by an additional KRW 25 billion in 2008. The savings of KRW 204 billion in 2008 resulted from fewer extruder returns, fewer defective preassemblies and finished tires, less OE overflow, lower energy costs, and reduced utility leakage. In 2009, greater attention will be focused on production operations with the aim of achieving

<sup>4</sup> Cost Reductions in 2008



## Internal Communication



KRW 24.1 billion in savings for the company.

The cost-cutting program at Hankook Tire has resulted in the design and implementation of rational processes that meet global standards. At the same time, systems have been improved and employee capabilities have been strengthened. Hankook Tire has created a unique innovation effect in the reduction of operating costs. Various action plans have been devised to minimize inefficiencies in the inevitable investments that must be made as operations go global. Those plans will be used at work sites to obtain positive results.

In the future Hankook Tire will focus on satisfying diverse consumer needs and lowering costs in difficult operating environments as products continue to flow into newly emerging markets with growing demand, putting even greater efforts to secure cost competitiveness.

**Improved Strategic Procurement System**

Hankook Tire is strengthening procurement competitiveness by raising transparency and efficiency in procurement operations while cutting costs. To this end, we are now relying on outsourcing for the supply of consumables used in maintenance, repair and operation (MRO) activities.

In 2007 we carefully examined Korean companies that specialize in MRO supply and then selected the ones that offered the most favorable conditions to Hankook Tire. The formal contract was signed on May 1, 2008, and procurement was outsourced for the following seven months of the year. During that time, operating costs dropped despite an adverse procurement environment because of soaring costs for raw and processed materials. In addition, we built an integrated MRO management system and used e-commerce, raising the transparency of MRO consumable procurement

and strengthening the overall competitiveness of procurement activities.

In 2009 the current system for procuring MRO consumables will be expanded and efforts to raise work efficiency will continue. The system for monitoring supplier performance will also be reinforced. These efforts will bring further reductions in operating costs and help to ensure overall cost competitiveness for the company.

**Performance-based CPM System**

Hankook Tire has taken the lead among Korean corporations in adopting a system of corporate performance monitoring (CPM) based on the balanced score card (BSC). The system is designed to measure and evaluate organizational performance and the results are then reflected in employee compensation.

The BSC is a performance management tool that measures whether the achievement of short-term objectives is in line with the company's long-term vision. Balanced CPM is achieved by including the "customers," "internal business processes" and "employee learning and growth" among the categories for scrutiny. These are areas that can easily be overlooked when the primary focus is on financial outcome. Hankook Tire has formed an organizational unit dedicated to CPM, and the job is supported by a computerised system.

The BCS-based CPM system at Hankook Tire has been the object of studies in Korea and hailed by the media as a best practice benchmark. It also serves as a benchmark for other companies that are preparing to adopt new corporate performance monitoring systems of their own.

## In-house Training

**Improved Internal Communication**

Internal communication is necessary for organizational members to share corporate goals and values. It bolsters employees' abilities to perform their duties, strengthens their sense of responsibility, and is a key activity for achieving strategic corporate objectives. When internal communication is not smooth in today's fast-paced business environment, the company will be unable to adapt to the changes, and overall performance and efficiency can be impaired. In addition, the types of internal communication must be understood, and constant improvements must be made to allow information to flow and be closely shared between the company and the employees as well as among organizational units.

We are also working to ensure that management processes are understood and the strategic direction is accepted and linked to the work that each employee does so that overall performance is maximized. This program to enhance internal communication can be used as a medium for improving organization results and efficiency from the perspective of top management. At the same time, the effort fosters employees' understanding of corporate goals and allows them to integrate their work organization-wide so that individual capabilities are elevated. In the future, we will continue to strengthen our internal communication activities, offering organizational members a strategic direction that they can share so that work efficiency steadily improves.

**Improved Training for Employees**

A system for selecting quality human resources is important, but cultivating those human resources is even more critical. At Hankook Tire, we recognize clearly that core competencies start with people,

and we provide ongoing programs for human resources development (HRD). Training is a key element in HRD and the main factor for improving human capabilities; therefore, Hankook Tire runs various training programs and has organized a scientific HRD system. Currently, programs are offered on foreign languages to improve general global competencies, specific work-related skills, leadership skills for managers, and special topics for top executives.

In addition to the regular training courses for building global competencies, specialized programs have been developed to cover individual work positions and fields of expertise. The connection between the training content and the actual work has been strengthened as a result. Particular attention was paid in 2008 to enhancing work-related training, and the Hankook Tire HRD system was augmented. Employees with extensive experience in the target skills were enlisted to design and teach the courses, which were organized according to the company job classification system. The training and use of in-house instructors has provided an effective way to impart specialized knowledge pertinent to Hankook Tire.

In addition, each Regional Headquarters conducts classes on foreign languages (English, Chinese, Russian, German, etc.) to enhance employees' abilities to conduct business in their respective regions.

A system is in place that assigns credits to each training course that is completed, and employees are required to earn a certain number of these credits each year. The system motivates everyone to take courses, leading to improved competencies among the entire workforce.

# Global Outlook

## Industrial Dynamics 052

Global Economic Environment

Automotive Industry Environment

Tire Industry Environment

## 2009 Outlook 056

Outlook & Plans by Region

OE Tire Market Outlook

2009 Global Tire Sales Target

KRW **4.33** trillion

2009 Tire Sales Growth Target

**6.4**%

### The opportunities and challenges of global business are changing.

Some are calling the current situation the “second Great Depression,” while others say this is the economic crisis of the century. However, the people at Hankook Tire view it differently. We like to stress the opportunity aspects of a crisis. To us, the world in 2009 represents both an opportunity and a challenge that will never come again. Therefore, we have set our tire sales growth target at 6.4 percent for the year. Our expectations of continued growth amid such an unfavorable economic environment reveal the degree of our self-confidence. Our precise global outlook, clear goals, and aggressive marketing activities indicate our belief that now is the time to make a global difference.



# Industrial Dynamics

## Global Economic Environment

Nonperforming subprime mortgage loans in the US sparked a crisis in financial markets that soon moved into the real economy, and growth quickly slowed. The difference in the highest and lowest oil price levels during the year was nearly USD 100 a barrel. Exchange rate volatility started to worsen late in the first half and continued throughout the rest of the year. The IMF estimated that global economic growth slowed to 3.4 percent as a result of the turbulence. The US economy experienced negative 0.3 percent growth quarter on quarter in 2008. Negative growth rates were also recorded in Europe and Japan for two quarters. Iceland and Ecuador faced national bankruptcy and emerging markets experienced serious financial problems, prompted talk of the "economic crisis of the century" and a "second Great Depression." The global economic crisis has driven some of the biggest names in corporate and financial circles into bankruptcy or reorganization, from Lehman Brothers and Merrill-Lynch to GM, Chrysler, and Ford.

The global economy is not expected to improve much in 2009. New housing construction is likely to be slow, and spreading instability in financial markets will reduce household spending. The risk of falling investment and rising unemployment increases the possibility of further contraction in economic activity. The IMF predicts that the global economic growth rate will be just 0.5 percent, the lowest since World War II. The first negative economic growth rates since World War II are also expected for the US (-1.6%), Germany (-2.5%) and Japan (-2.6%). More worrisome is the possibility of the crisis spreading from the major economies to the rest of the world. Economic growth in developing countries is forecasted to slip from 6.3 percent in 2008 to 3.3 percent in 2009.

The difficulties in the global economy are

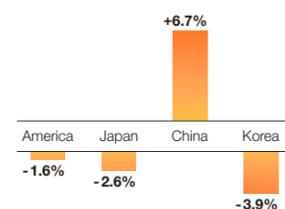
expected to have a direct impact on the tire business. Weakened consumer sentiment will increase the pressure felt by tire makers.

Given the gloomy predictions, governments are proposing various policies and forms of cooperation to improve the structures of their economies and overcome the global crisis. The stabilization of the wildly fluctuating oil prices and prices for other raw materials will ultimately have a positive effect on the real economy as well.

Despite the negative global economic climate, we have set our 2009 tire sales target for Hankook Tire at more than KRW 4.33 trillion, an increase of 6.4 percent over our 2008 performance. This ambitious target reflects our resolve to overcome the adversity and maintain growth as well as our confidence in getting the job done. A look at history reveals that the most competitive companies grow the most during a downturn, and companies that cannot compete will fade away. Hankook Tire also grew faster than its rivals during the financial crisis that hit Korea during the late 1990s. We will step up our efforts to become an ever-better corporation. In difficult economic times, we are setting clear goals, improving productivity, cutting costs and marketing our products aggressively to outperform our competitors.

Many institutions are reporting a rather gloomy outlook for 2009. However, governments around the world, including Korea, the US, Europe and China are going forward with unprecedented economic stimulus packages and seeking cooperation and win-win arrangements with other nations to focus everyone's attention on economic recovery. We are confident that such efforts to coax the beginnings of an economic rebound in the second half of 2009, will brighten prospects for the future.

<sup>1</sup> Prospects for the Global Economy



Source: IMF World Economic Outlook

## Automotive Industry Environment

The global economic crisis caused automobile sales to plummet in the second half of 2008. The Korea Automotive Research Institute (KARI), citing data from J.D. Power, reported that global automobile sales were lower in the third quarter than they were a year earlier, and that the falling sales trend continued to spread worldwide in the fourth quarter.

High oil prices during the first half coupled with spreading financial instability in the second half led to a steady decline in automobile sales in the advanced economies. On the other hand, sales remained robust in the world's main emerging economies (Brazil, Russia, India and China) during the first half but the growth rate slowed in the latter part of the year and actually declined in China and India.

Mid- and full-sized vehicles, including SUVs, were the segments hardest hit in most regions by the high oil prices, and pickup truck sales were also negatively affected in the US. Sales instead were mainly concentrated on the smaller models with high fuel efficiency. The decline in global automotive sales is expected to continue in 2009 with the slowdown in the real economy. KARI predicts that 65.9 million tires will be sold worldwide in 2009, a 3.1 percent drop from a year earlier. However, a high risk remains that small automobile dealers will either go bankrupt or close, and the installment finance industry, which plays an important role in driving automobile sales, will face limitations. For these reasons, J.D. Power, Global Insight, and other automotive industry watchers have continued to adjust their sales projections downward, and market conditions are likely to worsen.

A decline in automotive sales has already been seen in the US and Japan over the past 4 - 5 years, and future sales drops are expected to be steepest in the US and Europe. Therefore, KARI expects the

share of the advanced markets in global automotive sales to fall from 55.1 percent in 2008 to 53.6 percent in 2009. Meanwhile, the surging growth in automotive sales in India, China and other emerging markets in recent years is now likely to slow considerably. Major sales declines are also feared in nations that may have to ask the IMF for financial relief from the global economic crisis.

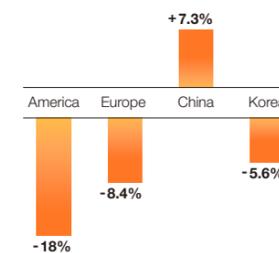
These factors are expected to erode the profitability of automobile manufacturers still further. Moreover, an increasing number of automakers are relying on government funds to survive, most notably the US Big 3 (GM, Chrysler and Ford). Toyota, which has a major share of the US market, is also concerned over faltering profitability from falling sales.

On the other hand, as the purchasing power of emerging economies remain relatively stronger than the advanced economies, and small and mid-sized car models have emerged as the new market mainstream, automakers which have competitiveness in these segments are expected to benefit from the current global economic downturn.

The CEOs of automakers are saying that they have been facing their "greatest crisis ever" since the end of 2008. They have also announced robust self-rescue plans for survival. The US Big 3 automakers must undertake major reorganization to qualify for the government's massive cash bailout. Numerous mergers and acquisitions are also being attempted within the auto industry.

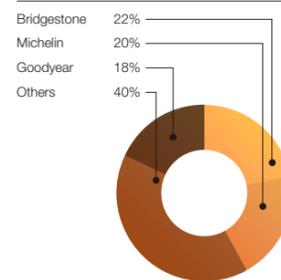
Automakers' self-rescue efforts include cutting back on production, adjusting product portfolios, and lowering operation costs. The drop in market demand is steepest in North America, so production cuts are focused on pickup trucks and SUVs, and production lines are being retooled for smaller models with greater fuel efficiency.

<sup>1</sup> Global Automobile Sales Forecast for 2009



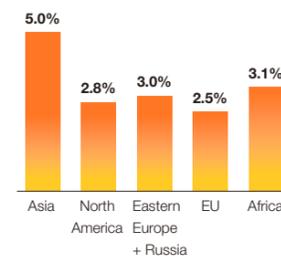
Source: Korea Automotive Research Institute (KARI)

<sup>1</sup> Big 3 Shares of the Global Tire Market



Source: Just Auto

Average Sales Growth rate by Region (2004 - 2014)



Source: Just Auto

### Tire Industry Environment

New product R&D is also focused on smaller vehicles with high fuel mileage. The automakers are working to lower operating costs in order to improve liquidity, and they are devising new programs for expanding sales.

Dealer and sales networks are being expanded in emerging markets (the BRICs in particular) to counter a drop in automobile purchasing power. Various programs are being launched to increase sales, including installment payment schemes with relaxed conditions. There is a growing possibility of severe sales competition in India and Brazil, prompting manufacturers to selectively concentrate their resources on those regions with the most suitable conditions for them specifically.

All people seek “freedom of mobility.” The automobile, airplane and other modes of transportation were invented to satisfy this basic human desire. Tires are used to support the vehicular chassis and transfer the energy and braking power to the road surface. They are also designed to mitigate road shock and enable the vehicle to change its directional course. Tires are mounted on passenger cars, buses, trucks, airplanes and other vehicles, contributing to greater convenience in life for the users. The tire industry is expected to continue as the basic human desire of mobility exists, and as long as a fundamental substitute for tires does not appear.

*Tire Business* magazine ranks tire manufacturers according to sales revenue for each fiscal year. According to the magazine, a total of USD 127 billion worth of tires was sold in 2007, about 12.8 percent more than the USD 112.5 billion figure posted a year earlier.

*Just Auto* magazine reported that 1.29 billion tires were sold in 2007, some 3.2 percent more than the 1.25 billion tires sold in 2006. The annual growth in tire sales revenue was much higher than the increase in tire units sold because of the increase in prices and changes in the product mix. The number of tires sold in 2008 is estimated at 1.34 billion tires, an increase of about 3.3 percent year on year.

<sup>1</sup> Michelin (France), Bridgestone (Japan) and Goodyear (the US) are the world’s three largest tire makers and collectively produce more than half of all tires sold. The combined market share for the top ten tire manufacturers is over 70 percent. According to the magazine *Modern Tire Dealer*, Bridgestone led the global sales revenue rankings in 2007, followed closely by Michelin. Sales for Hankook Tire reached around USD 3.4 billion in 2007, the world’s seventh highest ranking, representing a 2.7

<sup>2</sup> Compound Annual Growth Rate in the Global Tire Market (2004 - 2008)



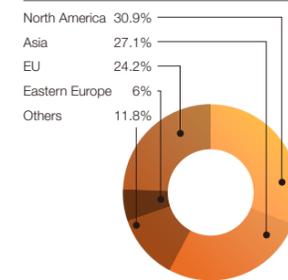
Source: Just Auto

percent market share. <sup>2</sup> Importantly, Hankook Tire’s 2007 sales revenue was up 19.7 percent year on year, the highest growth rate among the top ten tire producers. According to data from *Just Auto*, the compound annual growth rate (CAGR) for the global tire industry is around 3.2 percent over the past five years (2004 - 2008). However, the sales total for 2008 is estimated to be lower than in 2007 for most countries. Growth was only seen in a few emerging markets, and the rate of growth was slower than in previous years. Obviously the fall in sales is steepest in the United States, where the economic crisis began. The unexpected world - wide contraction, in market size as well as slow or negative growth rates, have caused serious difficulties for tire manufacturers, suppliers and dealers alike.

<sup>3</sup> Breaking down the numbers regionally, *Just Auto* reported that North Americans bought 30.9 percent of all the tires sold during 2008. Sales were the second largest (27.1%) in Asia and third highest (24.2%) in the EU. These three regions represented more than 80 percent of the global market. Asia is predicted to have the world’s highest CAGR (5%) between 2004 and 2014, followed by Africa (3.1%). Total tire sales in the US for 2008 are expected to be lower than in 2007, which is in line with the falling automobile sales.

The tire market can be divided into two main segments, original equipment (mounted on new vehicles), and replacement. Of course the size of the OE market is tied directly to the number of new vehicles sold, while the replacement market is affected by the number of registered vehicles on the road, road surface conditions, and the financial resources of consumers. The OE market comprises about 30 percent of the total market. In November 2008, J.D. Power estimated that world automobile sales would be down about 3.5 percent from the

<sup>3</sup> 2008 Global Tire Sales Distribution

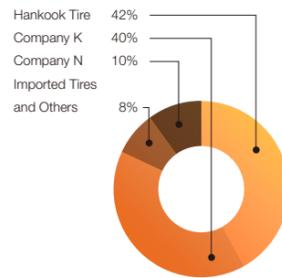


Source: Just Auto

# 2009 Outlook

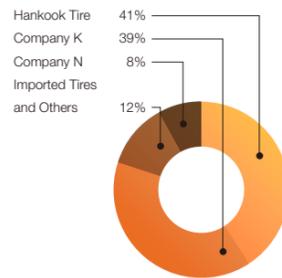
## Outlook & Plans by Region

2007 Market Share by Company in the Korean RE Tire Market



Source: Just Auto

2007 Market Share by Company in the Korean OE Tire Market



Source: Just Auto

Hankook Tire Global Headquarters  
Hankook Tire Korea Headquarters



### Korea

Soaring oil prices plunged the Korean balance of international payments into a deficit during the first half of 2008, and the prices for materials rose rapidly. The global credit crunch that ensued from the outbreak of the financial crisis in the US in the second half caused new investments to dwindle, triggering a vicious cycle of rising unemployment and falling consumption.

Both domestic demand and exports are expected to be down in 2009, and the Korean economy will register its slowest growth rate since the financial crisis of the late 1990s. The IMF predicts that the Korean economy, with a very high reliance on exports, will contract by 4 percent in 2009, the lowest figure for any major economy. Others consider the IMF estimate to be too pessimistic, but the outlook is not bright for the year nonetheless.

The Korean tire market will be sluggish as a result of the global economic downturn, with the fall in total demand seen in 2008 continuing into 2009. In addition, automobile companies around the world are manufacturing and selling fewer vehicles, so OE sales for Korean tire companies will also be lower. Tires produced for the OE market will have to be sold in the replacement market, sparking a supply glut and intensifying competition among manufacturers.

The Korea Automotive Research Institute (KARI) forecasts negative growth for the Korean automobile industry in terms of both domestic demand and exports. KARI expects marginal improvement to begin from the third quarter.

The Hankook Tire Korea Headquarters will strive to boost sales in a difficult market by catering to consumers' needs. The overall lineup, which has been heavily weighted toward premium tires, will

be expanded to cover all categories. Consumers' purchase decisions are increasingly dictated by economical and practical considerations, so the company will aggressively market the fuel-saving, environment-friendly "enfren" line, which has been popular since its launch in 2008. The new e-Cube line, with improved durability and fuel savings, will also be launched for tour buses, freight trucks and trailers. Finally, the growing number of price-conscious consumers will be attracted to the new Smart line of tires designed exclusively for the economy segment.

Meanwhile, a worsening economy is likely to give rise to poorer quality tires and services in the marketplace. Hankook Tire will maintain the "The Right tire, The Right Service" campaign to preserve product and service excellence in all sales channels. Channel supervising activities have also been strengthened to guide Hankook Tire sales toward rapid growth qualitatively as well as quantitatively.

We are not backing off during an economic downturn but rather will engage in aggressive advertising and PR activities, bolstering communication with customers and maintaining public relations with the sellers. Hankook Tire aims to turn the crisis of 2009 into an opportunity, living up to its reputation as the nation's largest and leading tire manufacturer.

### China

During the past five years, the Chinese economy has averaged an economic growth rate of 10.8 percent, driving the growth of the world economy as a whole. Starting in 2006, the Chinese government imposed a series of restrictive measures to curb the overheating of the economy and rising prices for goods and materials. The Chinese economy registered a 9 percent growth rate in 2008, the first

<sup>1</sup> 2010 Target sales share in the Chinese Tire market

55%

single-digit performance since 2003. The slowdown is expected to continue in 2009, with the IMF predicting a 6.7 percent rate for the year.

Negative factors abound. Growth in China has been primarily driven by exports and investment. Now, however, the economies of the US and Europe, China's two largest export destinations are in a deepening recession, and China cannot escape the effects of this. At the same time, the tight global credit situation has dampened foreign investors' sentiment, while the Chinese government's prolonged tight monetary policy has also had a negative effect. The value of the Chinese Yuan has also been appreciating against that of other currencies.

On the other hand, the government policy is now focused on boosting the economy through ongoing stimulation of domestic demand. This growth in Chinese domestic demand, and the economies of emerging countries are expected to drive the world's economic growth.

Hankook Tire China Headquarters has set a series of targets aimed at ultimately emerging as a top-tier player in the Chinese tire industry. Liquidity will be secured under an emergency management program designed to deal with the extreme changes in the external environment. The bias tire portfolio has been adjusted, and the company is on a mission of raising brand value steadily to increase market share. In addition, we are pursuing diverse strategies for products, costs, brand, distribution and logistics in order to raise the domestic sales portion of locally produced tires to 55 percent.

To begin, Hankook Tire is boosting product competitiveness and differentiating the lineup to maximize the sales of the latest offerings and strategically important items. The competitiveness of TBRs has been improved to make further inroads

into this segment.

Cost-cutting efforts include analysis of major cost categories to find ways to reduce material costs and manage inventories most efficiently. Marketing activities have been upgraded as well. For example, new sales tools have been introduced at the point of sale to raise consumer preference for the Hankook brand. The company will also continue to foster the Chinese public's recognition of and trust in the Hankook name in order to enhance the premium brand image.

Our distribution network is expanding; the distribution channel structure is being improved and aggressive sales activities are being implemented.

The Hankook Tire China Headquarters is also working on the logistics end to help raise the domestic sales of local production to 55 percent by 2010. For example, sales and marketing infrastructure are being installed within the logistics system. The delivery system has been improved and a computerised network has been established for managing distribution channels.

Hankook Tire continues to cultivate the China business into a "second home market." The company's position will be firmly established in 2009 through the successful implementation of the "strategy for gaining top-tier status in China."

### Europe

The European economy had been growing steadily on the back of a strong global economy until the global economic downturn in 2008. The continent was affected directly by the subprime mortgage crisis that erupted in the United States. Asset value, consumption and investment fell while unemployment rose. The three cash-strapped Balkan states, Romania, and Bulgaria all teetered on the brink of national bankruptcy, and Hungary

Hankook Tire China Headquarters



requested an IMF bailout.

Tightening global credit in 2009 is expected to slow the real economy for the foreseeable future, prompting the IMF to forecast a -2 percent growth rate for the European economy. The GDP for the EU in 2009 is also estimated at around -2 percent, the first negative growth since 1993. The economies of Eastern Europe and the former CIS, which had enjoyed high growth rates, are also expected to dip into negative territory.

Of course, the tire industry in Europe is adversely affected by the faltering real economy. Real tire demand has plummeted since the second quarter of 2008, and growth is likely to remain either negligible or negative through the second half of 2009. The depreciating value of currencies in non-Euro countries such as Russia, Poland, Norway and Sweden will erode dealers' price competitiveness, leading to fewer orders. For all these reasons, sales of both OE and replacement tires are expected to fall in Europe and the former CIS during 2009.

However, the competitiveness of Hankook Tire products continues to improve, even as a second-tier brand in Europe. As a result, sellout positioning and increased market share are attainable. The Europe Headquarters is stepping up marketing activities and is confident of reaching short-term sales volume targets. Strategies are also being formulated for turning the crisis into an opportunity to lay the groundwork for elevating value over the mid-long term.

To begin with, a flexible pricing policy is in effect to cope with dropping oil prices and depreciating currency value. The sales network will be expanded in regions where unit costs are high. Organizational and human resources networks are being reinforced in the former CIS, an emerging market. Ongoing efforts are being made to cultivate markets with

growth potential into growth drivers for Hankook Tire. Steady investment in marketing will also help to raise brand value, the foundation for greater global efficiency.

Major strategies for the Hankook Tire Europe Headquarters in 2009 include (1) raising sales-based value through distribution policy, (2) increasing volumes to major dealers and maximize sales, (3) starting sales at potential dealers in potential markets, (4) expanding volume through an adjusted brand portfolio, (5) steadily raising value in the TBR segment by developing fleet accounts, and (6) intensifying information gathering activities and being more responsive to local marketing. These strategies will enable us to overcome the difficult economic environment and accelerate growth.

### The Americas

The steadily slumping housing market in the United States and the nonperforming subprime mortgage loans reduced individual consumption and investment, triggering a major drop in US economic growth. The financial crisis forced many financial institutions and other companies into insolvency or government bailout programs. The US government announced the largest economic stimulus package in history. Nevertheless, the US economy is predicted to shrink by 1.6 percent because of instability in the financial markets and the slowdown in the real economy.

The Latin American economies are expected to see drops in all sectors, including investment demand, domestic consumption and demand for raw and processed materials. Thus, these markets are reflecting the worsening macroeconomic picture and their growth will inevitably slow down. However, the degree of external shock will be less in Brazil,

Chile and Argentina, which rely mainly on domestic demand.

The economic downturn and tight credit market will dampen consumer sentiment, which will in turn put downward pressure on sales of both original equipment (OE) and replacement (RE) tires. Hankook Tire America Headquarters will deal with this situation by focusing operation strategies on two areas in 2009: distribution and communication.

We will improve the distribution network in the Americas to maximize total sales by increasing the portion of Hankook Tire products handled by the existing and new dealers. North American sales will be expanded through large distribution networks, achieving growth in scale. New dealers will be continuously developed in new South American markets as the focus remains on quantitative growth. In the process, Hankook Tire can secure an advantageous position in the current struggle for survival.

In the US, the company will maximize the synergy effect on sales of the OE and RE tires supplied to Ford, GM, Chrysler and the International Tire Exhibition & Conference (ITEC). Meanwhile, the portion of tires for commercial vehicles is increasing steadily in the sales portfolio, and the company is responding with a companywide campaign to raise the value of truck and bus radial tires (TBRs). The focus of this campaign as it pertains to distribution can be divided into three segments: (1) expansion of commercial dealers, (2) development of new fleet accounts, and (3) diversification of channels.

A distribution policy that has been in effect for several years stressing the need for frequent deliveries in small lots as well as the importance of the fill rate. At this time, improving the logistics services is more important than ever for a second-tier player. The Hankook Tire America

Headquarters has addressed this regional characteristic in April 2008 by opening a new warehouse in Chicago to serve the Midwestern and Western United States. Now, there are six warehouses and five sales offices in the US that supply tires directly to at least 300 wholesalers and distributors as well as more than 4,000 retail stores. The US warehouses can also provide urgently-needed shipments to the Caribbean and Latin America, ensuring a stable supply and shortening delivery lead time for greater customer satisfaction.

We have devised operational strategies for the American markets that are in step with the Hankook Tire global brand marketing strategy. A continuing national TV commercial campaign launched in the US 2008 is aimed at helping Hankook Tire to join the ranks of the second-tier tire companies by 2012.

Brand assets built up through sponsorships of Major League Baseball and the Formula Drift Championship, which are popular among buyers of UHP tires, are now being used in and linked to marketing communication via television, magazines and special events. Preparations are now complete for platform marketing that can reach target consumer segments.

The Hankook Tire America Headquarters is leveraging its resources to the maximum to support the various marketing communications activities at the Latin American Department and to install the necessary internal systems. Plans have been devised and are now being implemented for ensuring the most appropriate marketing communication approaches are used in each market. In addition, Hankook Tire is engaged in various events and marketing communication activities that can satisfy major dealers' expectations for affiliate marketing, which has become increasingly important given the nature of the Latin American market.

Hankook Tire Europe Headquarters



Hankook Tire America Headquarters



**The Middle East, Africa & Asia - Pacific**

The Middle Eastern, African and Asian - Pacific regions, which maintained strong growth through 2008, are also expected to be influenced in 2009 by the economic slowdown in the advanced economies.

The global financial crisis that broke out in 2008 will continue to hamper consumption in 2009, and this will negatively affect the tire business as well. In response, Hankook Tire has already gone into emergency mode, establishing region - specific sales strategies and marketing programs as well as developing new products. Keen attention is being paid to winning orders ahead of the competition and being first to develop new markets in the Middle East, Africa and the Asia - Pacific.

The global economic downturn will adversely affect the Middle East somewhat, but sales are still expected to be better here than in other parts of the world. For example, a massive inflow of petrodollars has allowed Middle Eastern governments to embark on ambitious infrastructure construction projects. We will carefully manage existing dealers in the region and focus promotional activities on markets where sales are low to stimulate demand.

The Middle East is strategically important for Hankook Tire, and we will leverage our strong market position to continue our sales growth.

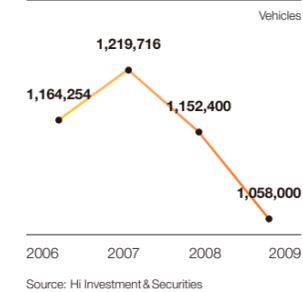
To generate revenue, we have established aggressive marketing strategies for major African nations, especially the emerging, resource - rich economies that are showing annual economic growth rates of over 7 percent. Our resources are focused on markets that were not penetrated previously and on regions where new demand can be created to overcome the slumping global economy and remain on the growth track. Our most aggressive strategies and programs are being

implemented in Africa to achieve breakthrough results, and this region represents a strategic market for the future.

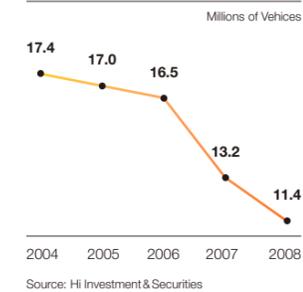
The lackluster tire sales in the Asia - Pacific are expected to continue with the overall drop in consumption. However, Hankook Tire is attracting new dealers and developing new markets to minimize the effects of the economic downturn. The emphasis is on increasing the volume of tires sold through dealers and the sales of strategically important product lines. An integrated marketing program has been established incorporating our Australia Sales Subsidiary. This is expected to enhance the influence of retail channels at the point of sale. Meanwhile, the efforts to develop new business in newly emerging markets should boost market share in the Asia - Pacific.

In 2009, "preemptive strike" strategy and marketing approach will be implemented to maintain steady sales growth in the Middle East, Africa and Asia - Pacific amid the global economic downturn. To this end, we are studying and analyzing the segmentation, targeting and positioning (STP) issues for each market in order to devise the optimal strategies for the 4P's (price, product, promotion and place). In the process we aim to turn the crisis situation into an opportunity for continued growth.

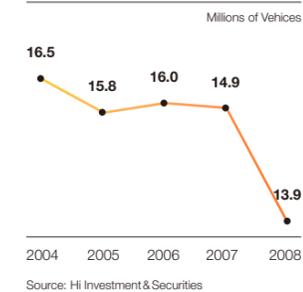
**Forecast for the Korean Automotive Market**



**Forecast for the American Automotive Market**



**Forecast for the Western European Automotive Market**



**OE Tire Market Outlook**

Automobile sales in Korea are expected to decline 8.2 percent year on year in 2009 to the lowest level since the nation's foreign currency crisis in the late 1990s. Meanwhile, the severe contraction of the real economy in the US and restrictions on leasing and installment finance are driving many independent dealers out of business, which will accelerate the fall in automobile sales. A fundamental restructuring of the automotive industry would add to the difficulties that confront all suppliers of automotive parts, including Hankook Tire.

Considering the automakers' crisis in 2009, we will aggressively pursue the OE business while focusing on maximized profitability from stronger cost competitiveness. Thus diverse plans are being considered for maximizing cost competitiveness by mobilizing internal competencies to cut costs in new product development, production, logistics and sales.

On the product side, we have developed environment - friendlier, more fuel - efficient tires at the right moment, which should improve the profitability of the OE business. Production efficiency enhancements and just - in - time production will enhance cost competitiveness, while on - time delivery will ensure that automakers receive the stable supply of OE tires that they require. New activities for raising customer satisfaction and closer ties with customer automakers will also contribute to solid OE tire sales.

We have bolstered our crisis management program in preparation for the restructuring of some automobile manufacturers. The appropriate steps will be taken should a crisis arise, allowing us to adjust supply volumes flexibly and remain profitable even in difficult times.



# Mission & Vision, Strategy

## Mission & Vision 064

Mission & Vision Framework  
Stakeholder Value Creation

## Strategy 067

Brand Value Up  
Global Operation Excellence  
Global Growth Acceleration

2013 Sales Target

KRW **7** trillion

2013 EBITDA Target

KRW **1** trillion

2013 Production Target

**100** million tires

2013 Global Tire Industry Ranking Target

**5**<sup>th</sup>

### We maintain unchanging convictions in an ever-changing world.

The Hankook Tire mission & vision framework reflects our unwavering commitment to being “A Leading Global Tire Company providing Customers with Value and Pleasure.” At the same time, our substantive growth and market leadership are elevating the competitiveness of our brand and products to the highest levels in the industry. The greatest value at Hankook Tire is the growth achieved through constant change and innovation. Understanding the present while preparing for tomorrow, we are on a mission to establish trust as the foundation and then execute strategies to advance toward our goals. Ultimately, we will turn crisis into new opportunities, which are then transformed into a solid springboard for the future.

# Mission & Vision

## Mission & Vision Framework

Hankook Tire's Mission & Vision framework was adjusted in 2008 to redefine the purpose of our existence, core principles and corporate direction of Hankook Tire. At the top of the new framework are the mission statement, the six business principles, and the core values. By defining our *raison d'être*, we provide the basic rules for our doing business and standards to guide the thinking and deeds of our organizational members.

The bottom of the new framework details the strategic direction in which the company is headed, where it should be in 2013 as well as in 2020, and how it will get there.

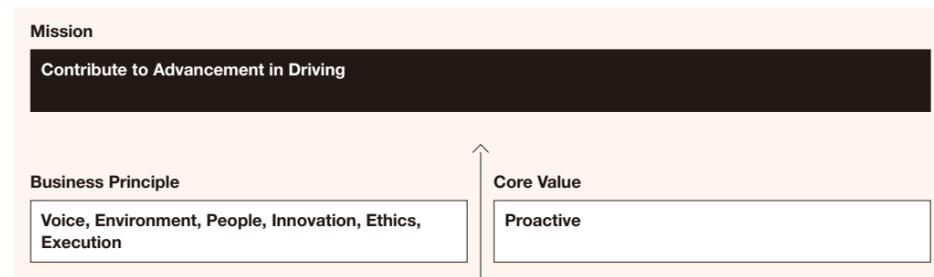
### Mission

Based on previously stated corporate principles, we have defined our mission as "Contribute to advancement in Driving." As such we strive for progress in both the company and society. The mission statement describes what we must do and provides the legitimate basis for our existence and activities.

### Business Principle

Business principles are established to provide all employees, from the top down, with shared values and a common basis for making decisions. We have established six basic principles underlying the way we all do business at Hankook Tire: (1) Voice: be customer-oriented, (2) Environment: emphasis on the environment, (3) People: valuing talented

### Mission Frame



### Vision Frame



individuals, (4) Innovation: be innovation-driven, (5) Ethics: practice ethical management, and (6) Execution: be execution-oriented.

### Core Value

The core values provide employees with a common set of priorities regarding how they go about their work. They are the standards for thinking and acting that all employees must respect and follow so that the mission is accomplished and the vision is realized. The core values for Hankook Tire can be summed up in one word: "proactive." This set of values forms the basis for the corporate culture and are at the heart of what all Hankook Tire employees deem important.

### Vision 2020

The Hankook Tire vision is to be a "A Leading Global Tire Company providing Customers Value and Pleasure." In other words, we aspire to be one of the world's very best. Achieving this vision can be described as a series of activities that narrow the difference between what is now and what will be in the future. We have established clearly defined, step-by-step goals and have determined the best ways to attain the stature we envision for Hankook Tire in 2020. Our firm resolve to go forward is expressed in a diagram, and a step-by-step, management strategy scenario has been organized to help us get the job done. We are relentless and passionate in our efforts to reinvent Hankook Tire as a global corporation that sets industry trends.

### Mid-term Goal 2013

We have established concrete goals in order to realize our envisioned future. Initially we set our performance targets as "5 - 1 - 1" (KRW 5 trillion in sales, EBITDA of KRW 1 trillion, 100 million tires

produced) by 2013, but that has been revised upwards to "7 - 1 - 1" (KRW 7 trillion in sales, EBITDA of KRW 1 trillion, 100 million tires produced). In the process of attaining these ambitious targets, we aspire to rise to 5th place in the global standings for tire manufacturers.

### Strategic Direction

We have clarified three strategic directions in which to proceed for the mid-long term in order to realize our ultimate vision. They are: (1) Brand Value Up, (2) Global Operation Excellence and (3) Global Growth Acceleration.

The importance of brands is widely understood, as they represent the company's face and are a yardstick for measuring customer satisfaction. Communication with customers is also a priority at Hankook Tire. Therefore we are investing steadily into raising brand value to respond effectively to market changes and ultimately become a market-driven company that leads the market. Various ongoing programs are in place to elevate the stature of our brand. For example, we develop products that satisfy customers, engage in vigorous marketing communications, and are strengthening our distribution competencies.

Thorough preparation is necessary today, given the steadily increasing uncertainty in the business environment. The current downturn in the global economy serves to remind all companies of how important operational efficiency truly is. Hankook Tire's global operations optimization is a strategic direction for maximizing business efficiency.

To this end, cost and investment rationalization schemes and other programs are being devised to use company resources as efficiently as possible. The global supply chain management (SCM) project is also in progress as part of efforts to rationalize

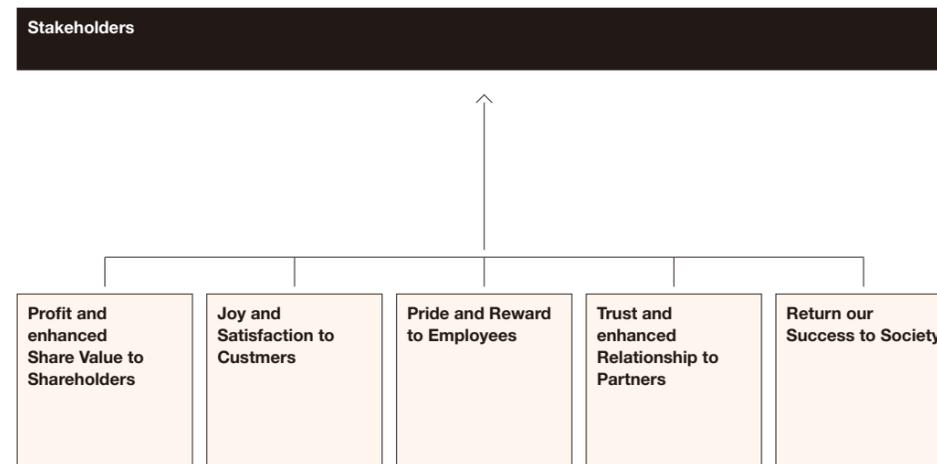
# Strategy

## Stakeholder Value Creation

business processes. Innovations are also being made from the mid - long term perspective to manage potential risk better and respond quickly and comprehensively when actual risk occurs. The economy of scale is vital for tire manufacturers. The entry barriers are high in this technology - , labor - and capital - intensive industry, but tire making has already matured in the advanced economies. Therefore, companies are engaging in new investment, mergers and acquisitions to foster further growth. Indeed, an economic downturn in the 1980s triggered much M&A activity among tire makers, resulting in a wide gap between the majors and the top and the second - tier players. For this reason, relentless effort is being made to increase operational scale and raise profitability. Hankook Tire, too, has identified the acceleration of global growth as a strategic direction for the future and is investing continuously to acquire additional production facilities around the world.

We understand that creating value for all stakeholders is a necessary condition for us to sustain our business and realize our corporate vision. Therefore we have defined what stakeholder value creation means, clarifying the kinds of value that stakeholders can receive as we fulfill our corporate mission. We also recognize the importance of stakeholder satisfaction and seek to provide such satisfaction apart from the mission&vision framework. As such we have established a system that puts greater emphasis on providing value to stakeholders while we achieve our mission & vision framework.

### Stakeholder Value Creation



### Hankook Tire Products



## Brand Value Up

### Stronger Marketing Program

Stronger marketing is being implemented as a mid - long term goal. To start, the pricing policy has been devised to come up with the best equilibrium points for each region and product line taking into account overall corporate profitability as well as such variables as marketing demand, exchange rates and raw materials.

Global demand for tires is expected to fall in 2009, but we plan to sell 16 percent more tires. Our pricing strategy stresses the maximization of sales capabilities and efforts in concert with the distribution strategy to (1) strengthen the loyalty of current dealers, (2) develop new markets, and (3) secure new dealers in existing markets.

We operate simulations on fluctuations in materials prices and the real time rates of exchange between the local currencies and the US Dollar. The simulation data are reflected in our computation of the equilibrium points for each region and product line.

The equilibrium points that we calculate from the simulations allow us to respond intelligently with a preemptive pricing policy when the market environment is in great flux.

In addition, our distribution policy is established for downstream implementation, reducing the number of steps in the product distribution process and maximizing profits for the company. We strive constantly to increase end - user exposure to our brand and secure stable order volumes so that we can predict demand more precisely and improve our price positioning.

Various approaches are taken to secure our own distribution channels. We initially create distribution infrastructure by establishing local wholesalers and building sales and service networks. Our sales are then expanded in retail channels, which we either

try to purchase or invest into. In the future we will introduce new distribution services that bring Hankook Tire ever closer to the consumers.

### Development of Market - leading Products

Hankook Tire led the Korean market and was ranked seventh worldwide in 2008, and our corporate value continues to rise as we introduce innovative, new products. In 2008, we were the first in Korea to complete development of a tire "enfren" designed specifically for enhanced environment friendliness. We also launched the premium Ventus S1 Noble and XQ Optimo Nova domestically and the popular Optimo 4S all - season tire overseas.

The enfren development project began in 2005 and required three years to complete. The environment - friendly, fuel - saving tire received the Green Winner Award in Korea (in October 2008) and was certified compliant with Japan's Green Purchase Law (in December 2008).

The XQ Optimo Nova, the successor to the XQ Optimo, has been acclaimed for its low noise, superior ride comfort and superb handling performance. Braking distance has been shortened significantly as well.

The convenient and economical Optimo 4S is great in the snow but can also be used the rest of the year, eliminating the need to change winter tires. It is the first in the industry to receive Germany's prestigious Blue Angle mark in recognition of outstanding eco - friendliness.

The truck & bus radial segment continues to grow in importance, and Hankook Tire continues to come out with new TBRs that can accommodate changing market requirements. Korea's first environment - friendly TBR, e - Cube (AH25, DH25 and TH25) was introduced in Korea in 2008, and the AL07+ tire for long - haul applications was put on

the market overseas.

The new - concept e - Cube line is designed to boost fuel mileage and provide improved wear resistance at the same time, benefitting the user and the environment. Our proprietary "split Belt" technology promotes even wear, and greatly improves ride comfort for a unique product value.

The AL07+ is designed for the front wheels of trucks on long - haul routes, particularly in the United States. The tire features outstanding wear performance, and helps the operator to save on fuel costs. The AL07+, Z35A for drive axles and TL01 for trailers have all received the US Environmental Protection Agency's "Smart Way" certification for environment friendliness, a tribute to Hankook Tire's technological excellence.

Indeed we will continue to apply our unmatched technology to come out with new items in the e - Cube series as well as additional long - haul TBR for the US and Europe. We also fulfill our corporate social obligations as a Leading Global Tire Company, as evidenced by the spirit of our Kontrol Technology and H-LOHAS program.

In the meantime, we continue to prepare for the future by seeking out new growth engines. We are marketing aggressively in Brazil, Africa and Southeast Asia in a bid to develop new markets and diversify our regional portfolio.

#### Improvements of Services

Slumping automobile sales and lackluster growth in the automotive market are expected to continue for the next year or two. We are dealing with this situation by strengthening our OE service capabilities in the following ways:

First, we will focus on building "win - win" portfolios that can maximize strategic synergy between us and our partners by taking the special

needs of the automaker into account. This approach will enable the automaker to receive a stable supply of high quality tires from us while we minimize the fluctuation in OE tire sales volume. We will initiate various programs to bolster our partnerships with the automakers and focus our best capabilities on building successful "win - win" OE tire portfolios.

Second, the automotive market mainstream is moving toward smaller vehicles with higher efficiency. We aim to provide cost - competitive OE tires for compact and mid - sized vehicles and cultivate the ability to beat our competitors in new product development. Our focus will be on improving the OE portfolio for compact and mid - sized vehicles to satisfy both the automaker and the new vehicle owner.

Third, we will bolster profitability by supplying OE products that feature sophisticated "green" technologies. Environmental standards are becoming ever stricter around the world, with Europe leading the way. Eco - friendly technology has already become a requirement for automakers, which are obliged to mount fuel - saving tires on their new vehicles. Consumers, too, are more attracted to environment - friendlier tires, which boost the corporate image and increase sales at the same time.

In recent years, we have developed technologies that reduce rolling resistance and can be used to create tires that comply with the stricter environmental standards, even in Europe. We have introduced various products with improved competitiveness in terms of performance as well as cost, and our lead over the competition continues to widen.

The front - running technology at Hankook Tire is creating a new paradigm in the global tire market.

#### Achieving the World's Best Quality

Our Quality Department's vision today is to provide customers with the world's best quality tires. To realize this goal we, of course, continue to improve quality and aim for perfection even in the aesthetic features of the product. Second, we seek quality that not only satisfies but also truly impresses the customers. Third, our ceaseless investment in quality improvement is a way to build brand loyalty. We have creatively made over our Hankook Tire Production System with the goal of joining the Top 3 on the J.D. Power customer satisfaction index by 2012. Meanwhile, we are engaged in a

campaign to ensure that not even a single defective tire reaches the customer. We continue to seek out potential customer needs and run ongoing global quality innovation activities.



"Tame the Road" Campaign



"Road to Success (一路通天下)" Campaign



"Driving Emotion" Campaign



**Global Brand Communication**

Hankook Tire is engaged in diverse brand communication programs around the world. The basic direction of the marketing strategy is to position Hankook Tire as a premium brand in Korea and China and to elevate public recognition of the Hankook Tire brand in the rest of the world.

Currently a global campaign is in progress under the "Tame the Road" theme. In addition, the "Road to Success" campaign in China features China Guo Jing Jing, who won two gold medals in diving at the Beijing Olympics, as the spokesmodel. Top entertainers have been part of the "Driving Emotion" campaign in Korea since 2006.

Meanwhile, our "Kontrol Technology" theme has been used in various marketing and PR activities for

corporate image enhancement. Our name is also getting global exposure through our participation in various motor sports events and trade shows such as the Nurburgring 24 hour in Germany, American LeMans, Tokyo Auto Salon, Dubai Motor Show, and SEMA Show in Las Vegas.

These diverse communications programs promote our brand image and brand loyalty among activities consumers, dealers, and industry insiders. Of course we are constantly devising new marketing activities that will lead to increased sales in the future.



**Global Operation Excellence**

**Consistent Innovation**

Companies cannot remain safe in a crisis if they are unable to respond effectively to the business environment. The current global recession is a case in point. Predicting the magnitude and speed of the ripple effect is impossible, while concurrence, irrespective of time, region or industrial segment, is an important characteristic of its spread. Thus, flexibility in corporate operations is now more important than ever in order to overcome the difficulties in the business environment. A 2007 McKinsey survey of more than 1,300 manufacturers concluded that 40 percent of the companies at the top when the IT bubble burst in 2001 had fallen into the lower rankings. The results of this survey demonstrate how critically important flexible market response and careful strategy selection are to companies. Hankook Tire has adopted an innovation policy to respond most effectively to the current uncertainty and business factors. A special emphasis has been put on raising effectiveness and responding effectively to requirements regarding the organization, processes and people.

Hankook Tire has been upgrading the structural efficiency of the organization to enhance the global operations system since 2005. The Regional Headquarters system has been established to elevate marketing and sales capabilities based on regional characteristics. Well-trained human resources are supporting the system for greater overall effectiveness.

All processes within the company have been defined to help minimize waste factors from a companywide perspective. Ongoing process innovation is optimizing individual work flows and allowing the organization to be operated most efficiently.

Innovations pertaining to people are not limited

to individual productivity gains. Diverse management improvement activities are being conducted in offices and on the factory floor to reconfigure company resources efficiently, create new value and bolster competitiveness.

These activities for raising organizational, process and human resource efficiency have laid the groundwork for an innovative management system. Continued development and expansion of this system in the future will enhance global response capabilities.

**Resource Rationalization**

Hankook Tire is committed to managing resources most efficiently so that customers always get the very best products and shareholders receive a stable return on their investment. Production cost in the tire business is heavily dependent on the prices of raw and processed materials. Most of these are petrochemicals, meaning that oil prices are closely linked to the bottom line. Given the current economic uncertainty, simple cost-cutting measures cannot bolster operational soundness sufficiently to withstand a market downturn. Rather, the company must implement ongoing innovation activities.

To this end, we have been working hard on cost rationalization since 2007. "Cost rationalization" goes beyond one-time cost-cutting measures. The goal is to make the deep structural changes necessary to ensure a solid and efficient organization that can constantly offer top value to customers and shareholders, even after the market enters an unexpected slump.

In addition, we continue to rationalize investment capital. Minimizing tangible and intangible assets is a prerequisite for global investment capital rationalization. In the tangible asset category, we have been optimizing our fixed assets such as tools,

machinery, and furnishings as well as our invested assets, which include raw and processed materials, preassemblies and trade receivables. On the intangible asset side, we have been focusing on the optimization of production processes, know-how, our brands and our trademarks. Careful control of all invested assets minimizes the volume required worldwide, which in turn eases the financial burden and maximizes financial efficiency.

The effort does not stop with invested asset management alone. A system is in place to monitor the feasibility and effectiveness of all investments, and the investment portfolio is being improved from a strategic point of view.

**Risk Management**

Without careful hedges against risk, corporate operations are always vulnerable to serious hazards. Hankook Tire has been preparing for the possibility of a crisis and addressing the increased uncertainty of the business climate by installing a new risk management system that can act quickly and respond accurately. The system is designed

to prepare the company for the onset of any crisis, enable rapid response when a crisis does occur, and thereby minimize the potential damage. Hankook Tire classifies risk as either internal or external. External risk includes financial, legal and brand-related issues, while product quality, labor relations, accidents and security belong in the internal risk category. Such classification provides standards for examining risk while weighing diverse courses of action. It is a tool that provides greater flexibility to risk management. Looking at risk from this multifaceted view and preparing accordingly also causes the company to consider numerous business scenarios, resulting in meticulous preparations and responses for risk of all kinds.

A risk early warning system will be implemented in the future to further tighten risk management at Hankook Tire. The company will be another step ahead in preventing a potential risk from turning into a actual problem. This effort will also reinforce the foundation for sustainable management.



**Global Growth Acceleration**

**Worldwide Infrastructure**

Logistics costs are very high in the tire business, and optimization of the global production and distribution portfolio is very important for securing a competitive advantage.

Therefore, Hankook Tire, which aspires to be a global leader, has devised mid-long term plans for building economy of scale and a global portfolio.

Progress in this respect is ongoing. Production began in Korea at the Daejeon Plant, with world-class output capacity, and the Keumsan Plant, with a state-of-the-art automation system. The company then went offshore by establishing two factories in China, at Jiangsu and Jiaying. Most recently, a plant has been secured in Hungary to provide greater access to the European market. The company is also working to achieve the proper balance among the various economic blocks (Europe, China and the Americas in particular) to achieve the ideal economy of scale for each region, secure a better hedge against exchange rate fluctuations, and improve distribution capabilities.

We are not complacently satisfied with the progress to date and plans to continue improving global portfolio. Our efforts will not stop until sufficient efficiency is obtained through the economy of scale. We are considering various options to secure the output capacity we need, including joint ventures with local tire companies and acquisitions of foreign companies. Decisions on investment are now tempered by concerns over the contracting real economy for the short-mid term. However, we continue to study new investment plans to secure essential output expansion for the mid-long term. Any new project will be based on careful deliberation and keen foresight.

Daejeon Plant



Keumsan Plant



Jiangsu Plant



Jiaying Plant



**Expanded Production Capabilities & Profitable Product Mix**

Acquiring sufficient output capacity is important, but serious problems can occur from shortsighted expansion plans that do not take the bottom line into account. Therefore, we manage our product portfolio in consideration of both productivity and profitability.

Radial (tubeless) tires are the market mainstream, and the use of bias tires, which require an inner tube, has been mainly limited to commercial vehicles and construction equipment. Moreover, radial tires are slowly taking over these segments as well. Importantly, improved roads in developing countries and emerging economies reduce the need for bias tires, which perform well under very rugged conditions. Hankook Tire is watching the changing market requirements closely, monitoring the ongoing profitability of each product line. The product portfolio is being restructured to elevate productivity and profitability for the short-, mid-, and long-term.

The changing markets are not just for the tires used on cars, trucks and buses. We remain in step with the global trend by carefully studying diversification into new product segments. Ongoing output expansion and marketing activities are proceeding along with plans to move into the production of tires for motorcycles, aircraft and bicycles. Growing global demand for construction, raw materials and cargo transportation brightens the outlook for off-the-road radial tires (OTRs) used on construction equipment and other lucrative new product segments. Moving into this area will boost profitability and enable a more flexible use of production facilities at the same time.

# Sustainable Management

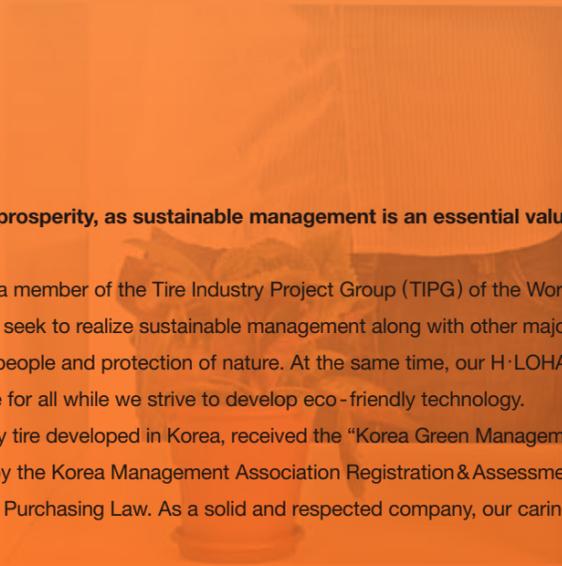
## Sustainable Management

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Sustainable Management in Hankook Tire

Environmental Performance

Corporate Social Responsibility



**Hankook Tire is fulfilling social responsibilities for shared prosperity, as sustainable management is an essential value that all world-class companies must now have.**

Devoted to the low-carbon, green growth movement, we are a member of the Tire Industry Project Group (TIPG) of the World Business Council for Sustainable Development (WBCSD). We seek to realize sustainable management along with other major tire makers by paying constant attention to the well-being of people and protection of nature. At the same time, our H-LOHAS campaign is helping to make the world a healthier place to live for all while we strive to develop eco-friendly technology.

Importantly, enfren, the first fuel-efficient, environment-friendly tire developed in Korea, received the "Korea Green Management Excellence Award" in the Green Product category presented by the Korea Management Association Registration & Assessments (KMAR), and was certified for compliance with Japan's Green Purchasing Law. As a solid and respected company, our caring people and nature will not fade.



Visitors to Eco-friendly Operations from 1998 to 2008

More than **8,500** People

Reduction of CO<sub>2</sub> Emissions from enfren Tires

**820** Kg

# Sustainable Management

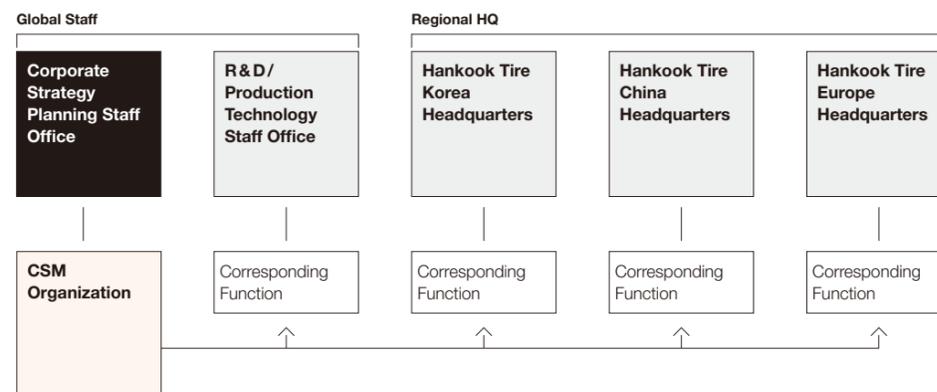
## Sustainable Management in Hankook Tire

Traditionally, sales revenue, profit and other financial indicators are the foremost goals of business operation and served as an absolute standard for measuring corporate performance. In today's business environment, which is characterized by global competition, however, financial performance along cannot guarantee a company's long-term survival. Put differently, the capability of generating non-financial value can even determine whether or not a company can stay in business. The most notable non-financial merits that influence a company's ultimate value as well as corporate image are environmental and social. Issues such as low-carbon, green growth and climate change have become subjects for global discourse and consideration in business decision-making. In sum, companies can grow in a sustained manner only when they fulfill social and environmental responsibilities in today's world.

We realized the significance of corporate sustainable management (CSM) early on at Hankook Tire, and we have taken necessary steps accordingly. For starters, our top management proclaimed a commitment to CSM and established the basic framework for action. In August 2008,

Hankook Tire formed an internal team responsible for providing the CSM vision and guidelines as well as supervising compliance on a company-wide basis. The team is currently devising detailed strategies, principles, goals, and action plan, so that the entire company can go in the same direction with regard to CSM activities. In 2009, the focus will be placed on going beyond the existing environmental and social contribution programs to lay a firmer foundation for CSM. We plan to apply for ISO 26000 certification to boost our externally-recognized corporate value. We are also considering the publishing of annual sustainability reports to meet the global standard.

Meanwhile, training is being conducted company-wide on our new CSM system, and employees are regularly updated on CSM objectives so that everyone is on the same page. As a long-term measure, a committee for CSM will be established as a medium of company-wide communication and integrated CSM risk management. We aim to acquire a new comparative advantage in the world market by achieving CSM goals incorporated in mid-long term business strategies.



## Environmental Performance

### TIPG Activities

As part of our Corporate Sustainability Management (CSM) efforts, we have been an official member of the Tire Industry Project Group (TIPG) of the World Business Council for Sustainable Development (WBCSD) since the initiative's launch in 2005. In TIPG consists of eleven world-class tire makers, including Hankook Tire, and is carrying out a research program on the potential environmental and health effects of the materials used in tires and the roadway particles generated during normal vehicle use.

The CEOs of the eleven tire maker members met in Tokyo in June 2008 to review progress in the multi-year research program and discuss environmentally sound and productive systems for the disposal of End-of-Life Tires (ELTs). The CEOs approved additional study until December 2009, aiming to evaluate the long-term health hazard of tire wear particles (TWPs) on aquatic life and humans. Hankook Tire will continue to conduct diverse joint research projects with the world's major tire makers to contribute to the environmental preservation and the health of humanity.

### Integrated EHS Control System

Hankook Tire is working on the establishment of an integrated Environment, Health, and Safety (EHS) management system for standardized and more efficient EHS activities. The project was initiated in April 2008. Once completed in March 2011, the computerized system will systemically manage previously scattered EHS information and data.

Primary objectives are to (1) create eco-friendly production processes and working condition, (2) eliminate potential risk factors (3) regularly check individual employees' health (4) control chemicals systematically, and (5) evaluate local air

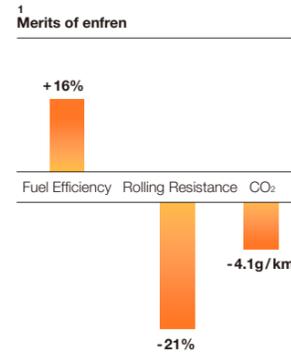
quality and reduce environmental stress caused by the company. The integrated EHS management system is expected to contribute to competitiveness by taking EHS management to the next level and allowing environmental management strategies to be implemented more efficiently.

### Activities for Environment

Hankook Tire's production facilities are subject to internal pollution control regulations that are stricter than the nation's environmental laws. The environment-friendly facilities at the Keumsan Plant are open for public tours. Between 1998 and 2008, over 8,500 people including students, local residents, and people working in the environmental technology field have toured the plant. The diverse tour program allows visitors to observe water purification with microorganisms, watch water quality testing, and listen to briefings on pollutant purification processes at the plant. The experience reminds students of the importance of a clean natural environment, and people involved in environmental technology can learn about the company's know-how.

### EHS Activities for Community

Hankook Tire is sharing EHS technology and know-how with small- and medium-sized enterprises (SMEs) in the local community. We are also active in community-level efforts for environmental preservation. A campaign initiated by us encourages other companies to each take responsibility for periodic cleanups of a local river and mountain. We regularly test streams near our operations and we take steps to improve the water quality. Our employees volunteer to pick up litter from nearby mountains. Many other programs related to environmental preservation are conducted on a regular basis as well.



**Eco - Friendly Tire Development**

Fuel efficiency and eco - friendly technology are emphasized more than ever before. Mindful of the trend, Hankook Tire focuses on developing eco - friendly tires. As the first fuel - efficient, environment - friendly tire in Korea, “enfren” boasts higher fuel efficiency than regular tires, reducing CO<sub>2</sub> emissions. The excellence of enfren has been recognized at home and abroad. Korea Management Association Registration & Assessments (KMAR) conferred its “Korea Green Management Excellence Award” in the Green Product category on the enfren line, which was also certified for compliance with Japan’s Green Purchasing Law.

<sup>1</sup>The enfren tire features a combination of technologies such as a special silica compound and structural design efficiencies to reduce rolling resistance by 21 percent. A field test showed a 16 percent reduction in fuel consumption. In addition, CO<sub>2</sub> emissions are slashed by 4.1g per kilometer traveled. Assuming a distance of 200,000km traveled over a ten - year period, the reduction in CO<sub>2</sub> comes to 820kg, which is equivalent to the amount absorbed by 146 trees in a year.

As such Hankook Tire is gaining recognition around the world for its strong environmental technology. The company will remain committed to developing green products in the years to come.

**Energy Conservation**

In the face of fierce competition, cost reduction is no longer a matter of choice. As part of effort to cut costs, Hankook Tire investigates causes for energy waste in the production process and addresses them to reduce energy consumption. For example, fuel consumption is reduced by minimizing idle facility operation, applying high - efficiency pumps to the vulcanization process, and using electricity to

run coolers in summer.

In 2009, we will expand our use of cheaper electricity rates at night while monitoring electricity consumption more vigorously to improve power efficiency. At the same time, we are examining economical ways to use alternative energy sources such as Bunker C oil, LNG, and End - of - Life Tires (ELTs).

As such, our pursuit of sustainable management fulfills social responsibilities and contributes to the well - being of people through efforts to generate greater value. These include (1) economic value by cutting costs, enhancing profitability, and innovating technology; (2) qualitative value by supplying products with superb quality based on optimized production process; and (3) environmental value by exploring new energy sources for the future and conducting environmentally sound business practices.

**Corporate Social Responsibility**

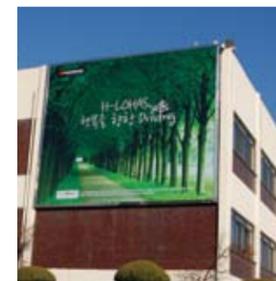
**H · LOHAS: Hankook Lifestyle of Health and Sustainability**

H · LOHAS is a lifestyle campaign initiated by Hankook Tire to improve the quality of life. Under the initiative, our employees are performing various activities in the environmental preservation, social contribution, and life/health areas, including volunteer activities for the improvement of EHS conditions at worksites. The H · LOHAS campaign is conducted on a quarterly basis to protect worker health and improve work life in a consistent fashion.

The 2008 launch of the H · LOHAS campaign was accompanied by vigorous promotional activities via diverse media, including H · LOHAS logo badges, stickers, posters, and banners at each worksite. In May 2008, H · LOHAS logo T - shirts and mugs were distributed to the employees prior to Hankook Tire Athletic Day, and an employee picnic helped to raise a fund for the environmental cause. Plans are now to donate the money raised for planting trees on Arbor Day in 2009. In addition, all Hankook Tire employees, starting with the Global CEO, as well as employees of partner companies were encouraged to sign a convention pledging to take part in the H · LOHAS campaign, raise public environmental awareness, and improve Hankook Tire’s corporate image and credibility.

At the same time, four different H · LOHAS posters featuring employee models were made with the themes of safety, health, sharing and the environment. The employee models include the Global CEO, who has demonstrated his commitment to the campaign. The posters were so popular that a new poster integrating the four posters was created in the latter half of 2008 and posted in the lobby of each worksite, delivering the hopeful message of H · LOHAS to visitors. Other promotional activities include the distribution of cell phone display cleaner

H · LOHAS Campaign



Social Contribution Activities



**Social Contributions**

Hankook Tire runs a welfare foundation as a vehicle through which to fulfill social responsibilities and obligations. The foundation extends a helping hand to the underprivileged of society in an ongoing effort to realize the dream for a society where all members live happily together. To give back to customers, Hankook Tire's regular and irregular social contribution activities are ongoing.

**Scholarship Program**

- The company provides scholarships to promising high school and university students who lack the financial resources to pay for their education.

**Programs for Public Health**

- Support for charity hospitals in Korea  
The company provides financial support for Seong-ga Welfare Hospital (Seoul), St. Joseph Medical Clinic (Seoul), Migrant Workers' Medical Clinic (Seoul), Seongsim Welfare Hospital (Daegu), and Ansan Vincent Hospital (Ansan) - institutions that offer free medical services to the socially underprivileged such as the homeless and ill wayfarers.

- Support for a charity hospital in Africa  
The company is contributing to the project to build a state-run charity hospital in Tanzania.

**Programs for Households in Difficulty**

- The company helps to pay living expenses for households headed by adolescents who have lost their parents from death or divorce; low-income, single-parent families; and families in which grandparents are the guardians of young children.

**Programs for Social Welfare Facilities**

- Provision of Supplies  
The company provides medication, school supplies and other items to nursing homes for the elderly and the disabled and "study rooms" offering after-school programs to children from low-income families.
- Donation of Vehicles  
The company has donated vehicles to social welfare facilities in the Daejeon area that visit homes of the people in need to offer social services.

**Provision of Lunches to Hungry Children**

- The company pays the expenses to provide lunches during school vacations to needy elementary schoolchildren who live in the vicinities of the plants and distribution centers in Daejeon, Keumsan, and Busan.

**Support for Financially - Strapped Households**

- The company helped pay living expenses to households affected by the oil spill off the West Coast in late 2007, and families facing financial difficulties because the breadwinner is unemployed, ill or missing. A total of KRW 100 million has been provided so far to some 200 households through this program.

**"Donggrami Laundry Room" Program**

- The company installs laundry room at social welfare institutions, enabling them to clean clothes for people from broken homes, elders who live alone and families with members that are physically challenged.

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# Financial Statements (Consolidated)

## Consolidated Balance Sheets

December 31, 2008 and 2007

Korean won (in thousands)

Assets	2008	2007
Current assets		
Cash and cash equivalents (Note 13)	296,695,410	178,131,293
Short-term investment assets (Notes 3 and 5)	70,563,242	41,734,775
Trade receivables, net of allowance for doubtful accounts of ₩13,017,761 thousand in 2008 and ₩9,768,690 thousand in 2007 (Notes 13, 14 and 24)	750,387,334	663,039,238
Other accounts receivable, net of allowance for doubtful accounts of ₩824,842 thousand in 2008 and ₩438,964 thousand in 2007	71,127,021	11,587,370
Inventories (Notes 4 and 14)	1,246,785,386	690,336,548
Accrued income	1,638,083	533,856
Current deferred income tax assets (Note 21)	13,906,330	3,059,609
Other current assets	83,610,583	28,929,472
<b>Total current assets</b>	<b>2,534,713,389</b>	<b>1,617,352,161</b>
Non-current assets		
Long-term financial instruments (Note 3)	26,500	37,500
Available-for-sale securities (Note 6)	8,787,718	15,548,860
Held-to-maturity securities (Note 6)	12,002,400	3,549
Investment securities accounted for using the equity method (Note 7)	3,003,050	3,184,005
Long-term loans	4,309,312	4,117,045
Other investments	7,274,532	6,834,599
Property, plant and equipment, net of accumulated depreciation (Notes 8, 11, 14 and 16)	2,661,338,488	2,382,835,740
Intangible assets, net (Note 9)	20,827,795	19,514,424
Non-current guarantee deposits	6,810,696	5,772,322
Non-current deferred income tax assets (Note 21)	115,291,796	70,916,325
Dishonored notes receivable, net of allowance for doubtful accounts of ₩2,234,624 thousand in 2008 and ₩2,170,334 thousand in 2007	423,445	3,163,703
<b>Total non-current assets</b>	<b>2,840,095,732</b>	<b>2,511,928,072</b>
<b>Total assets</b>	<b>5,374,809,121</b>	<b>4,129,280,233</b>

Continued

Korean won (in thousands)

Liabilities and shareholders' equity	2008	2007
Current liabilities		
Trade payables (Note 13)	406,975,857	326,487,525
Short-term borrowings (Notes 8, 10, 13 and 14)	1,754,928,968	953,233,885
Current portion of long-term liabilities (Notes 8, 10, 13 and 14)	186,858,117	129,301,045
Other accounts payable (Note 24)	245,829,580	197,078,964
Accrued expenses	66,186,885	38,856,873
Income tax payable	97,816,764	50,433,476
Dividends payable	31,142	24,397
Advances from customers	20,995,726	18,399,289
Other current liabilities (Note 14)	108,295,742	63,214,060
<b>Total current liabilities</b>	<b>2,887,918,781</b>	<b>1,777,029,514</b>
Long-term liabilities		
Debentures (Note 10)	-	10,000,000
Long-term borrowings (Notes 8, 10, 13 and 14)	620,409,784	550,661,059
Accrued severance benefits, net of National Pension Fund of ₩2,397,865 thousand in 2008 and ₩1,641,066 thousand in 2007, and severance insurance deposits of ₩98,580,880 thousand in 2007 and ₩102,659,596 thousand in 2007 (Note 2)	30,060,114	28,468,253
Long-term guarantee deposits payable	16,960,220	17,770,706
Other non-current liabilities (Notes 12, 13 and 14)	51,574,981	36,005,461
<b>Total long-term liabilities</b>	<b>719,005,099</b>	<b>642,905,479</b>
<b>Total liabilities</b>	<b>3,606,923,880</b>	<b>2,419,934,993</b>
Shareholders' equity		
Capital stock - common stock (Note 15)	76,094,965	76,094,965
Capital surplus (Note 16)	624,003,949	624,003,949
Capital adjustments (Note 15)	(58,462,239)	(12,397,746)
Accumulated other comprehensive income (Notes 6, 21 and 23)	123,570,284	2,209,507
Retained earnings (Note 17)	919,228,496	978,876,380
Minority interests	83,449,786	40,558,185
<b>Total shareholders' equity</b>	<b>1,767,885,241</b>	<b>1,709,345,240</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,374,809,121</b>	<b>4,129,280,233</b>

See accompanying notes to consolidated financial statements

## Consolidated Statements of Income

For the years ended December 31, 2008 and 2007

Korean won (In thousands), except per share amounts

	2008	2007
<b>Sales (Notes 19, 24 and 26)</b>	<b>4,461,209,330</b>	<b>3,585,760,615</b>
<b>Cost of sales (Notes 4, 9, 19 and 24)</b>	<b>3,395,034,205</b>	<b>2,603,678,278</b>
<b>Gross profit</b>	<b>1,066,175,125</b>	<b>982,082,337</b>
<b>Selling and administrative expenses (Notes 9 and 25)</b>	<b>857,391,457</b>	<b>706,118,392</b>
<b>Operating income</b>	<b>208,783,668</b>	<b>275,963,945</b>
<b>Non - operating income</b>	<b>351,705,998</b>	<b>101,476,068</b>
Interest income	14,502,705	9,572,898
Dividend income	1,759,061	801,944
Commission income	848,800	793,038
Royalty fee income	464,830	787,388
Rental income	2,706,342	2,467,649
Gain on foreign currency transactions	232,591,876	34,779,022
Gain on foreign exchange translation	75,977,052	37,207,009
Reversal of allowance for doubtful accounts	95,953	526,279
Gain on disposal of available - for - sale securities	180,720	5,219,410
Gain on disposal of property, plant and equipment	1,643,393	1,749,144
Gain on valuation of investment securities accounted for using the equity method (Note 7)	577,223	532,997
Gain on foreign exchange forward transaction (Note 14)	10,035	176,208
Others	20,348,008	6,863,082
<b>Non - operating expenses</b>	<b>479,759,231</b>	<b>155,427,887</b>
Interest expense	82,053,596	42,672,640
Loss on foreign currency transactions	263,779,578	41,079,776
Loss on foreign exchange translation	82,706,457	26,525,796
Loss on valuation of short - term investments	217,473	-
Loss on disposal of available - for - sale securities	16,146	82,530
Impairment loss on available - for - sale securities	295,263	480,177
Loss on disposition of other investment assets	902	-
Loss on disposal of property, plant and equipment	4,338,308	1,607,348
Loss on disposal of intangible assets	4,081	-
Impairment loss on intangible assets (Note 9)	950,898	-
Loss on disposal of trade receivables	36,876,465	32,712,559
Loss on valuation of foreign exchange forward contracts	-	23,934
Loss on foreign exchange forward transaction (Note 14)	94,790	683,280
Donations	788,556	220,160
Loss on disposal of inventories	5,873,931	3,106,417
Loss on prior period adjustment (Note 20)	-	3,782,478
Others	1,762,787	2,450,792
Income before income tax	80,730,435	222,012,126
Income tax expense (Note 21)	57,187,479	62,321,412
<b>Net income</b>	<b>23,542,956</b>	<b>159,690,714</b>
<b>Parent company interest</b>	<b>(20,152,604)</b>	<b>155,570,556</b>
<b>Minority interests</b>	<b>43,695,560</b>	<b>4,120,158</b>
<b>Net income per share (Note 22)</b>		
<b>Basic and diluted earning per share</b>	<b>(137)</b>	<b>1,050</b>

## Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31, 2008 and 2007

Korean won (in thousands)

	Capital stock	Capital surplus	Capital adjustments	Accumulated other comprehensive income (loss)	Retained earnings	Minority interests	Total
<b>As of January 1, 2007</b>	<b>76,094,965</b>	<b>621,026,415</b>	<b>(10,362,426)</b>	<b>(23,887,255)</b>	<b>863,273,020</b>	<b>35,347,189</b>	<b>1,561,491,908</b>
Cumulative effects of adoption of revised accounting standard	-	3,214,906	(2,008,925)	-	(2,919,714)	-	(1,713,733)
Retained earnings after appropriations	76,094,965	624,241,321	(12,371,351)	(23,887,255)	860,353,306	35,347,189	1,559,778,175
Cash dividends	-	-	-	-	(37,047,482)	-	(37,047,482)
Retained earnings after appropriations	76,094,965	624,241,321	(12,371,351)	(23,887,255)	823,305,824	35,347,189	1,522,730,693
Net income	-	-	-	-	155,570,556	4,120,158	159,690,714
Other capital surplus	-	(237,372)	-	-	-	-	(237,373)
Discount on subsidiaries' stock issuance	-	-	(26,395)	-	-	-	(26,395)
Gain on valuation of foreign exchange forward contracts	-	-	-	(3,772)	-	-	(3,772)
Loss on valuation of foreign exchange forward contracts	-	-	-	86,430	-	-	86,430
Loss on valuation of available - for - sale securities	-	-	-	(5,058,917)	-	-	(5,058,917)
Negative capital changes due to investment securities accounted for using the equity method	-	-	-	25,864	-	-	25,864
Gain (Loss) in translation of foreign operations	-	-	-	31,047,157	-	-	31,047,158
Minority interests	-	-	-	-	-	1,090,838	1,090,838
<b>As of December 31, 2007</b>	<b>76,094,965</b>	<b>624,003,949</b>	<b>(12,397,746)</b>	<b>2,209,507</b>	<b>978,876,380</b>	<b>40,558,185</b>	<b>1,709,345,240</b>
<b>As of January 1, 2008</b>	<b>76,094,965</b>	<b>620,789,043</b>	<b>(10,388,821)</b>	<b>2,209,507</b>	<b>980,082,361</b>	<b>40,558,185</b>	<b>1,709,345,240</b>
Cumulative effects of adoption of revised accounting standard	-	3,214,906	(2,008,925)	-	3,233,430	-	4,439,411
Retained earnings after adjustments	76,094,965	624,003,949	(12,397,746)	2,209,507	983,315,791	40,558,185	1,713,784,651
Cash dividends	-	-	-	-	(37,047,482)	-	(37,047,482)
Retained earnings after appropriations	76,094,965	624,003,949	(12,397,746)	2,209,507	946,268,309	40,558,185	1,676,737,169
Net income	-	-	-	-	(20,152,604)	43,695,560	23,542,956
Changes in equity according to transition of consolidated group	-	-	68,459	10,762	(6,887,209)	-	(6,807,988)
Acquisition of treasury stock	-	-	(46,997,839)	-	-	-	(46,997,839)
Other capital adjustments	-	-	(327,138)	-	-	-	(327,138)
Other capital adjustments transferred to loss on valuation of available - for - sale securities	-	-	1,192,025	-	-	-	1,192,025
Gain on valuation of available - for - sale	-	-	-	(4,386,032)	-	(803,959)	(5,189,991)
Gain (Loss) in translation of foreign operations	-	-	-	125,736,047	-	-	125,736,047
Minority interests	-	-	-	-	-	-	-
<b>As of December 31, 2008</b>	<b>76,094,965</b>	<b>624,003,949</b>	<b>(58,462,239)</b>	<b>123,570,284</b>	<b>919,228,496</b>	<b>83,449,786</b>	<b>1,767,885,241</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

Korean won (in thousands)

	2008	2007
<b>Cash flows from operating activities</b>		
<b>Net income</b>	<b>23,542,956</b>	<b>159,690,714</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>	<b>497,095,696</b>	<b>364,462,930</b>
Provision for severance benefits	22,374,241	31,893,294
Depreciation	411,900,328	289,158,750
Amortization of intangible assets	4,201,767	3,837,605
Bad debts expense, net	2,408,986	(138,332)
Sales damage expense	5,287,628	2,666,969
Amortization of discounts on debentures	38,096	52,024
Loss on valuation of inventories	79,284	9,445,038
Loss on disposal of inventories	5,873,931	3,106,417
Loss on valuation of short-term investments	217,473	-
Impairment loss on available-for-sale securities	295,263	480,177
Loss on disposal of intangible assets	4,081	-
Impairment loss on intangible assets	950,898	-
Loss on disposition of other investment assets	902	-
Loss on disposal of trade receivables	36,876,465	32,712,559
Loss on prior period adjustment	-	3,782,478
Amortization present value discount	(1,265)	(48,560)
Loss on foreign currency transactions, net	41,470	7,572,780
Loss (Gain) on foreign exchange translation, net	3,873,840	(10,681,213)
Gain on disposal of available-for-sale securities, net	(164,574)	(5,136,880)
Loss (Gain) on disposal of property, plant and equipment, net	2,694,915	(141,796)
Loss on valuation of investment securities accounted for using the equity method, net	(577,223)	(532,997)
Loss on foreign exchange forward transaction, net	84,755	507,072
Loss on valuation of foreign exchange forward contracts, net	-	23,934
Others, net	634,433	(4,096,389)
<b>Changes in operating assets and liabilities</b>	<b>(535,116,499)</b>	<b>(53,825,235)</b>
Decrease in trade receivables	75,305,960	7,178,692
Increase in inventories	(370,662,564)	(87,851,781)
Decrease (Increase) in other accounts receivable	(53,982,195)	25,135,050
Decrease (Increase) in accrued income	(757,725)	44,000,741
Decrease (Increase) in other current assets	(39,533,336)	12,137,902
Decrease in dishonored notes receivable	3,450,639	78,144
Increase in deferred income tax assets	(54,189,923)	(13,674,135)
Decrease (Increase) in other non-current assets	9,671,241	(20,600)
Increase (Decrease) in trade payables	(188,155,299)	65,371,530
Increase (Decrease) in other accounts payable	30,667,586	(61,795,897)
Increase (Decrease) in accrued expenses	1,365,517	(60,857,269)
Increase in income tax payable	45,609,420	14,217,257
Increase (Decrease) in dividends payable	6,745	(2,178)
Increase in advances from customers	4,972,877	7,471,623
Increase (Decrease) in withholdings	(3,976,230)	3,296,516
Increase (Decrease) in long-term guarantee deposits payable	(820,064)	165,950

Continued

	2008	2007
Increase in other current liabilities	24,485,335	33,405,921
Payment of severance benefits	(21,636,969)	(16,678,829)
Increase (Decrease) in severance insurance deposits	3,074,902	(24,928,157)
Decrease in contributions to the National Pension Fund	204,353	225,416
Decrease in other non-current liabilities	(216,769)	(701,131)
<b>Net cash provided by (used in) operating activities</b>	<b>(14,477,847)</b>	<b>470,328,409</b>
<b>Cash flows from investing activities</b>		
Acquisition of short-term financial instruments, net	(11,702,853)	(11,798,036)
Disposal of available-for-sale securities, net	4,668,051	1,851,100
Disposal (acquisition) of held-to-maturity securities, net	(11,999,844)	1,516,060
Withdrawal of long-term financial instruments	8,000	2,500
Decrease in other investments	33,228	9,604,055
Increase in currency futures	-	(504,022)
Acquisition of investment securities accounting for using the equity method	-	(174,910)
Extension of long-term loans, net	(689,193)	(1,553,268)
Disposal (Acquisition) of membership, net	25,856	(68,201)
Decrease (Increase) in guarantee deposits	(1,564,149)	462,660
Acquisition of property, plant and equipment, net	(332,999,447)	(628,783,745)
Acquisition of intangible assets	(408,610)	(353,978)
<b>Net cash used in investing activities</b>	<b>(354,628,961)</b>	<b>(629,799,785)</b>
<b>Cash flows from financing activities</b>		
Proceeds from long-term borrowings	60,753,871	222,353,181
Proceeds from short-term borrowings, net	626,051,286	17,006,061
Repayment of current portion of long-term debts	(146,511,904)	(25,395,858)
Payments of dividends	(37,551,587)	(37,425,561)
Acquisition of treasury stock	(46,997,839)	-
Repayment of other debts	-	(27,087)
<b>Net cash provided by financing activities</b>	<b>455,743,827</b>	<b>176,510,736</b>
<b>Effect of change in consolidated subsidiaries</b>	<b>3,553,053</b>	<b>67,633,748</b>
<b>Effect of exchange rate on cash and cash equivalents</b>	<b>28,374,045</b>	<b>10,770,362</b>
<b>Net increase in cash and cash equivalents</b>	<b>118,564,117</b>	<b>95,443,470</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>178,131,293</b>	<b>82,687,823</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>296,695,410</b>	<b>178,131,293</b>

## 01. General Information

**A Parent Company**

Hankook Tire Co., Ltd. (Parent Company, the "Company") was incorporated in May, 1941 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 Exchange. The Company's headquarter is located in Kangnam - Gu, Seoul and two manufacturing factories are in Daejeon and Kumsan.

The authorized number of the Company's common shares is 250 million with a par value of KRW 500 per share. As of December 31, 2008, the capital stock of the Company is 76,094,965 thousand (common shares: 152,190 thousand) and the Company's shareholders as of December 31, 2008 and 2007 are as follows:

	2008		2007	
	Number of shares owned	Percentage of ownership (%)	Number of shares owned	Percentage of ownership (%)
Yang - Rai Cho	23,808,097	15.6	23,808,097	15.6
Compagnie Financiere Michelin	15,195,587	10.0	9,494,477	6.2
Hyun - Buhm Cho	10,798,251	7.1	10,798,251	7.1
Hyun - Shik Cho	8,817,786	5.8	8,817,786	5.8
Others (*)	93,570,208	61.5	99,271,318	65.3
<b>Total</b>	<b>152,189,929</b>	<b>100.0</b>	<b>152,189,929</b>	<b>100.0</b>

(\*) Including 7 million and 4 million shares in treasury stock as of December 31, 2008 and 2007, respectively

**B Consolidated Subsidiaries**

## 1) Atlas BX Co., Ltd.

The company was incorporated in November 1944 to manufacture and sell battery. In 1994, the company offered its shares for public ownership and all of the company's shares were registered with the Korea Stock Exchange. The company's headquarter and manufacturing factories are located in Daejeon. As of December 31, 2008, the capital stock of the company is KRW 9,150,000 thousand and the parent company has 31.13% ownership interest.

## 2) Daehwa Eng' &amp; Machinery Co., Ltd.

The company was incorporated in February, 1992 to manufacture and sell tire and tube manufacturing machine. The company's headquarter and manufacturing factories are located in Daejeon. As of December 31, 2008, the capital stock of the company is KRW 20,000,000 thousand and the parent company has 95% ownership interest.

## 3) emFrontier Inc.

The company was incorporated in August 2000 to provide e-business, system management and service. The company's headquarter is located in Kangnam - Gu, Seoul. As of December 31, 2008, the capital stock of the company is KRW 2,000,000 thousand and the parent company has 50% ownership interest.

## 4) Hankook Tire China Co., Ltd.

The company was incorporated in 1996 to manufacture and sell tire. As of December 31, 2008, the capital stock of the company is RMB 1,515,974 thousand by several paid in capital increase and the parent company and Hankook Tire America Corp. has a total of 100% ownership interest.

## 5) Jiangsu Hankook Tire Co., Ltd.

The company was incorporated in 1996 to manufacture and sell tire. As of December 31, 2008, the capital stock of the company is RMB 1,575,974 thousand by several paid in capital increase and the parent company, Hankook Tire America Corp. and Hankook Tire China Co., Ltd. has a total of 100% ownership interest.

## 6) Hankook Tire China Regional Headquarter

The company was incorporated to sell products which Hankook Tire China Co., Ltd. and Jiangsu Hankook Tire Co., Ltd. manufacture in China. As of December 31, 2008, the capital stock of the company is RMB 22,000 thousand and Hankook Tire China Co., Ltd. and Jiangsu Hankook Tire Co., Ltd. has a total of 100% ownership interest.

## 7) Hankook Tire Japan Corp.

The company was incorporated in 1994 to sell products of the parent company in Japan. As of December 31, 2008, the capital stock of the company is JPY 20,000 thousand and the parent company has 100% ownership interest.

## 8) Hankook Tire America Corp.

The company was incorporated in 1981 to sell products of the parent company in America. As of December 31, 2008, the capital stock of the company is USD 8,000 thousand by several paid in capital increase and the parent company has 100% ownership interest.

## 9) Hankook Tire Canada Corp.

The company was incorporated in 1993 to sell products of the parent company in Canada. As of December 31, 2008, the capital stock of the company is CAD 50 thousand and the parent company has 100% ownership interest.

## 10) Hankook Tyre U.K. Ltd.

The company was incorporated in 1993 to sell products of the parent company in U.K. As of December 31, 2008, the capital stock of the company is GBP 25 thousand and the parent company has 100% ownership interest.

## 11) Hankook Reifen Deutschland GmbH

The company was incorporated in 1995 to sell products of the parent company in Germany. As of December 31, 2008, the capital stock of the company is EUR 128 thousand and the parent company has 100% ownership interest.

## 12) Hankook France SARL

The company was incorporated in 1996 to sell products of the parent company in France. As of December 31, 2008, the capital stock of the company is EUR 1,191 thousand and the parent company has 100% ownership interest.

## 13) Hankook Tire Netherlands B.V

The company was incorporated in 1996 to sell products of the parent company in Europe. As of December 31, 2008, the capital stock of the company is EUR 1,594 thousand and the parent company has 100% ownership interest.

## 14) Hankook Tire Espana S.A.

The company was incorporated in 1999 to sell products of the parent company in Spain. As of December 31, 2008, the capital stock of the company is EUR 60 thousand and the parent company has 100% ownership interest.

## 15) Hankook Tire Europe Holdings B.V

The company was incorporated in 2006 to operate controlling structure effectively in Europe. As of December 31, 2008, the capital stock of the company is EUR 39,025 thousand and the parent company has 100% ownership interest.

## 16) Hankook Tire Italia SARL

The company was incorporated in 1997 to sell products of the parent company in Italy. As of December 31, 2008, the capital stock of the company is EUR 21 thousand by several paid in capital increase and Hankook Tire Europe Holdings B.V. has 100% ownership interest.

17) Hankook Tire Hungary, Ltd.

The company was incorporated in 2005 to manufacture and sell tire. As of December 31, 2008, the capital stock of the company is HUF 8,900,000 thousand by several paid in capital increase and Hankook Tire Europe Holdings B.V. has 100% ownership interest.

18) Hankook Tire Budapest Kereskedelmi Kft

The company was incorporated in 2007 to sell products of the parent company in Hungary. As of December 31, 2008, the capital stock of the company is HUF 3,000 thousand and Hankook Tire Europe Holdings B.V. has 100% ownership interest.

19) Ocean Capital Investment (L) Limited

The company was incorporated in 1996 to invest securities in Labuan, Malaysia. As of December 31, 2008, the capital stock of the company is USD 0.01 and the parent company has 100% ownership interest.

**C Changes of Scope in Consolidation**

Location	Subsidiary	Changes	Description
Espana	Hankook Tire Espana S.A.	Inclusion	Increase in assets at the end of prior year
Italia	Hankook Tire Italia SARL	Inclusion	Increase in assets at the end of prior year
Hungary	Hankook Tire Budapest Kereskedelmi Kft	Inclusion	Increase in assets at the end of prior year
Korea	ASA Co., Ltd.	Exclusion	Exclusion due to exemption from external audit through bankruptcy and disposition of asset by Court (Note 14)

**D Details of Investments in Subsidiaries**

Subsidiaries	Parent company		Subsidiaries		Total	Location	Fiscal year end		
	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding					
Atlas BX Co., Ltd.	2,848,685	31.13	-	-	2,848,685	31.13	31.13	Korea	Dec. 31
Daehwa Eng' & Machinery Co., Ltd.	380,000	95	-	-	380,000	95	95	Korea	Dec. 31
emFrontier Inc.	2,000,000	50	-	-	2,000,000	50	50	Korea	Dec. 31
Hankook Tire China Co., Ltd.	(*1)	96.15	(*1)	3.85	(*1)	100	100	China	Dec. 31
Jiangsu Hankook Tire Co., Ltd.	(*1)	34.67	(*1)	65.33	(*1)	100	100	China	Dec. 31
Hankook Tire China Regional Headquarter	-	-	(*1)	100	(*1)	100	100	China	Dec. 31
Hankook Tire Japan Corp.	400	100	-	-	400	100	100	Japan	Dec. 31
Hankook Tire America Corp.	1,600	100	-	-	1,600	100	100	America	Dec. 31
Hankook Tire Canada Corp.	50,000	100	-	-	50,000	100	100	Canada	Dec. 31
Hankook Tyre U.K. Ltd.	25,000	100	-	-	25,000	100	100	U.K.	Dec. 31
Hankook Reifen Deutschland GmbH	(*1)	100	-	-	(*1)	100	100	Germany	Dec. 31
Hankook France SARL	(*1)	100	-	-	(*1)	100	100	France	Dec. 31
Hankook Tire Netherlands B.V.	(*1)	100	-	-	(*1)	100	100	Netherlands	Dec. 31
Hankook Tire Espana S.A. (*2)	(*1)	100	-	-	(*1)	100	100	Espana	Dec. 31
Hankook Tire Europe Holdings B.V.	390,253	100	-	-	390,253	100	100	Netherlands	Dec. 31
Hankook Tire Italia SARL (*2)	-	-	(*1)	100	(*1)	100	100	Italia	Dec. 31

Continued

Subsidiaries	Parent company		Subsidiaries		Total	Location	Fiscal year end		
	Number of shares	Ratio of shareholding	Number of shares	Ratio of shareholding					
Hankook Tire Hungary Ltd.	-	-	(*1)	100	(*1)	100	100	Hungary	Dec. 31
Hankook Tire Budapest Kereskedelmi Kft (*2)	-	-	(*1)	100	(*1)	100	100	Hungary	Dec. 31
Ocean Capital Investment (L) Limited	(*1)	100	-	-	(*1)	100	100	Malaysia	Dec. 31

(\*1) Certain subsidiaries did not issue shares., (\*2) In 2008, the subsidiaries are included in consolidated group.

**E Detail of Goodwill**

Korean won (in thousands)

Subsidiaries	Assets (*1)	Liabilities (*1)	Capital (*1)	Sales (*1)	Net income (loss) (*1)
Atlas BX Co., Ltd.	181,806,411	67,860,147	113,946,264	407,860,978	62,335,267
Daehwa Eng' & Machinery Co., Ltd.	57,213,720	39,065,068	18,148,652	54,820,285	(2,150,760)
emFrontier Inc.	23,237,994	13,340,970	9,897,024	48,949,338	1,971,336
Hankook Tire China Co., Ltd. (*2)	1,238,940,204	733,198,621	505,741,583	516,809,655	(40,711,837)
Jiangsu Hankook Tire Co., Ltd. (*2)	936,626,269	602,864,086	333,762,183	660,647,962	(33,861,016)
Hankook Tire China Regional Headquarter (*2)	157,264,708	179,930,417	(22,665,709)	560,359,547	(12,358,634)
Hankook Tire Japan Corp. (*2)	30,587,050	29,726,282	860,768	47,850,550	(1,757,306)
Hankook Tire America Corp. (*2)	403,547,032	331,849,940	71,697,092	737,713,966	7,536,804
Hankook Tire Canada Corp. (*2)	29,927,882	26,270,386	3,657,496	62,817,943	483,326
Hankook Tyre U.K. Ltd. (*2)	68,234,689	64,818,292	3,416,397	154,791,557	749,462
Hankook Reifen Deutschland GmbH (*2)	168,273,742	163,612,363	4,661,379	233,077,034	(55,623)
Hankook France SARL (*2)	46,126,057	42,937,905	3,188,152	76,119,545	783,302
Hankook Tire Netherlands B.V. (*2)	70,269,398	65,629,841	4,639,557	187,666,159	(1,667,540)
Hankook Tire Espana S.A. (*2)	23,070,271	21,251,578	1,818,693	36,479,005	50,449
Hankook Tire Europe Holdings B.V. (*2)	202,903,361	7,083	202,896,278	-	528
Hankook Tire Italia SARL (*2)	51,833,371	52,520,690	(687,319)	58,578,863	(811,338)
Hankook Tire Hungary Ltd. (*2)	700,081,105	667,958,092	32,123,013	199,297,456	(93,613,090)
Hankook Tire Budapest Kereskedelmi Kft (*2)	23,078,754	23,354,365	(275,611)	33,068,685	(314,075)
Ocean Capital Investment (L) Limited (*2)	71,512	-	71,512	-	7,790

(\*1) Above summary of financial information of subsidiaries is before elimination of inter-company transactions and adjustment of the differences in accounting policy between the Company and consolidated subsidiaries.

(\*2) Assets, liabilities and equity of the overseas subsidiaries have been translated at the exchange rate in effect at the end of the fiscal year and revenue, gains and losses have been translated at the weighted average rate for the year.

**F Adjustment due to Subsidiaries' Accounting Policies**

Korean won (in thousands)

Subsidiaries	Net asset value before	Adjustments	Net asset value after	Reason for adjustments
	adjustments		adjustments	
Atlas BX Co., Ltd.	113,946,264	(59,209)	113,887,055	Depreciation method & others
Daehwa Eng' & Machinery Co., Ltd.	18,148,652	(5,473)	18,143,179	
Jiangsu Hankook Tire Co., Ltd.	333,762,183	(150,600,744)	183,161,439	
Hankook Tire China Co., Ltd.	505,741,583	(109,495,783)	396,245,800	
Hankook Tire Hungary Ltd.	32,123,013	(75,481,867)	(43,358,854)	
<b>Total</b>	<b>1,003,721,695</b>	<b>(335,643,076)</b>	<b>68,078,619</b>	

**02. Summary of Significant Accounting Policies**

The significant accounting policies followed by the Company in preparing its consolidated financial statements are summarized below.

**A Basis of Financial Statement Presentation**

The Company maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English (with certain expanded descriptions) from the Korean language financial statements. Certain information included in the Korean language financial statements, but not required for a fair presentation of the Company's financial position, results of operations, changes in shareholders' equity or cash flows, is not presented in the accompanying financial statements.

**B Principles of Consolidation**

The consolidated financial statements include the individual accounts of the Company and its domestic and foreign subsidiaries over which the Company has control, except for companies with total assets of less than KRW 7,000 million at the end of the preceding fiscal year. Under Korean GAAP, control is presumed when the Company is the largest shareholder and owns more than 30 percent of the voting shares. Investments in affiliates in which a consolidated entity is able to exercise significant influence over the operation and financial policies of a non consolidated company are accounted for using the equity method. Significant influence is deemed to exist when the investor owns more than twenty percent of the investee's voting shares unless there is evidence to the contrary. If the changes in the investment value due to the changes in the net assets of affiliates, whose individual beginning balance of total assets or paid-in capital at the date of its establishment is less than KRW 7,000 million, are not material, investments in affiliates can be excluded from using the equity method.

The investment account of the Company and corresponding equity accounts of subsidiaries are eliminated at the dates the Company obtained control over the subsidiaries. The difference between the investment cost and the fair value of the Company's portion of assets acquired less liabilities assumed of a subsidiary is accounted for as goodwill or negative goodwill. Goodwill is amortized on a straight-line basis over its useful life, not exceeding ten years. When the shareholders' equity of the subsidiary after the date of acquisition of control over a subsidiary is changed due to a reduction in capital stock, increase in capital stock and others, the minority interest is calculated on the basis of the changed shareholders' equity of the subsidiary.

When the Company acquires additional interests in a subsidiary after obtaining control over the subsidiary, the difference between incremental price paid by the Company and the amount of incremental interest in the shareholders' equity of the subsidiary is reflected in the capital surplus. In case a subsidiary still belongs to a consolidated economic entity after the Company disposes a portion of the stock of subsidiaries to non-subsidary parties, gain or loss on disposal of the subsidiary's stock is accounted for as capital surplus.

If negative consolidated capital surplus is incurred, it is first charged to related consolidated capital surplus, and remaining amount is recorded as consolidated capital adjustment.

Profits and losses on inter-company sales of products, property or other assets are eliminated in the consolidated financial statements based on the gross profit or loss recognized. Unrealized gains and losses arising from sales by a controlling company to its subsidiary (downstream sales) are eliminated entirely and charged (credited) to controlling interest, and unrealized gains and losses arising from sales by a subsidiary to its controlling company or from transactions among subsidiaries (upstream sales) are eliminated entirely and allocated to controlling interest and minority interests.

The accounting methods adopted by the Company and its subsidiaries for similar transactions and circumstances are generally the same. The fiscal year of the consolidated subsidiaries is the same as that of the Company. Differences in accounting policy between the Company and consolidated subsidiaries are adjusted in the consolidation.

Assets and liabilities of the overseas subsidiaries have been translated at the exchange rate in effect at the end of the fiscal year and equity accounts have been translated at historical rates. Revenue, expenses, gains and losses have been translated at the weighted average rate for the year. Translation adjustments are accounted for as a separate component of equity as "accumulated other comprehensive gain (loss)" in the consolidated financial statements.

Minority interests represent the share in net operation results and net assets of a subsidiary other than controlling interest. When net loss attributable to minority shareholders exceeds the minority interests, the company until the minority interests' net loss charged to the controlling company has been fully recovered.

### **C Adoption of Statements of Korea Accounting Standards ("SKAS")**

Newly adopted standards

Through December 31, 2008, the Korea Accounting Standards Board ("KASB") has issued SKASs No. 1 through No. 25 to revise the previous Financial Accounting Standards. Certain SKASs were amended, and interpretations and opinions were released. A summary of the amended SKASs, Interpretations and Opinions, which have been adopted by the Company, is as follows

SKASs	Key requirements
SKAS No. 5 Property, plant and equipment	<ul style="list-style-type: none"> <li>· Scope out assets in the process of construction or development to be used as inventories.</li> <li>· Classify spare parts and repair tools as property, plant and equipment if they meet the following conditions               <ul style="list-style-type: none"> <li>① Useful life of the asset is more than 1 year;</li> <li>② The asset is attached to a specific property, plant and equipment for use; and</li> <li>③ The frequency of the use of the asset is irregular.</li> </ul> </li> </ul>
SKAS No. 15 Investment in associates	<ul style="list-style-type: none"> <li>· Clarify that receivables collected after the balance sheet date and short-term loans are excluded from long-term investments.</li> <li>· Clarify that upon additional purchase of subsidiary's stocks, the purchase price is compared to the net assets of the subsidiary in the consolidated balance sheet.</li> </ul>
SKAS No. 16 Income taxes	<ul style="list-style-type: none"> <li>· Include additional income tax or tax refunds for the prior periods in income tax expense for the current period.</li> <li>· Amend note disclosure items as follows               <ul style="list-style-type: none"> <li>① In the disclosure for details of income tax expense, total income tax effect and intra-period allocation is disclosed together;</li> <li>② Disclosure of details of tax adjustment items is no longer required, but the reconciliation between income before income tax expense and income tax expense is disclosed.</li> </ul> </li> </ul>
SKAS No. 20 Related party disclosures	<ul style="list-style-type: none"> <li>· Disclose the name of the ultimate controlling party (before amendment: the ultimate controlling company) in the note if it is different from the parent, and the name of the next most senior parent (before amendment: the next ultimate parent) which prepares its consolidated financial statements if either the parent or the ultimate controlling party does not produce its consolidated financial statements available for public use.</li> </ul>

Newly adopted SKAS does not affect the company's net assets and net income of the current period.

Recent Changes in Korean Accounting Standards

Korea Financial Accounting Standards, SKAS, Interpretation on Korea Financial Accounting Standards, Opinion on Application of Accounting Standards and Opinion on Financial Reporting Practice (collectively referred to as "KFAS and others") that were issued or amended by the Korea Accounting Institute and the Financial Supervisory Service for the year ended December 31, 2008 and adopted by the Company for the year ended December 31, 2008 are summarized below.

SKASs / Opinion	Key requirements
SKAS No. 5 Property, plant and equipment	<ul style="list-style-type: none"> <li>· Application of the cost method or the revaluation method may be chosen by each tangible asset type. Consistent application of the method chosen is required.</li> </ul>
SKAS No. 8 Investments in securities	<ul style="list-style-type: none"> <li>· In rare cases, the trading securities may be reclassified as other categories of securities when the Company's intention changes not to trade the securities in the near future.</li> </ul>
SKAS No. 15 Investments in associates	<ul style="list-style-type: none"> <li>· Clarifies that in applying the equity method to subsidiaries, except for those instances where the total investment is equal to or less than zero, the net assets and net income or loss on the non-consolidated financial statements of the subsidiary are identical to the net interest in the subsidiary's net assets and net income or loss on the consolidated financial statements of the parent.</li> <li>· Clarifies that Subparagraphs (Ga) to (Sa) of Paragraph 39 are illustrative. In addition, the difference between the consideration for the net interest and the net interest in the net assets of the subsidiary, as described under Subparagraphs (Na) to (Ra) is recognized as additional paid-in-capital in the consolidated financial statements of the parent.</li> </ul>
SKAS No. 25 Consolidated financial statements	<ul style="list-style-type: none"> <li>· If negative consolidated capital surplus is incurred, it is first charged to related consolidated capital surplus, and remaining amount is recorded as consolidated capital adjustment.</li> </ul>
Opinion on application of accounting standards 06-2, accounting for recognition of deferred tax related to investments on a subsidiary	<ul style="list-style-type: none"> <li>· Temporary differences related to investments in subsidiary, equity method investee or joint venture are not classified by origin but are treated as a lump-sum difference in considering whether to recognize deferred tax assets or liabilities. However, temporary differences arising from certain transactions under SKAS No. 16, such as elimination of inter-company transactions through equity method, income (loss) is treated as separate differences.</li> </ul>
Opinion on application of accounting standards 08-3, factors to consider for fair value of financial instruments	<ul style="list-style-type: none"> <li>· Valuation method is used to determine fair value when the market price in the principal or most advantageous market does not constitute fair value.</li> </ul>

As a result of adopting the amended SKAS No. 15 above, the financial statements as of December 31, 2007, which are presented for comparative purpose, are restated. Accordingly, capital surplus increased by KRW 3,214,906 thousand, capital adjustments and retained earnings decreased by KRW 2,008,925 thousand and KRW 1,205,981 thousand, respectively, as of December 31, 2007.

The Company prepared its 2007 financial statements in accordance with KAI Opinion 06-2, newly published by Korea Accounting Institute in 2007, in which the Company does not recognize deferred income tax by the source of accumulated temporary difference incurred.

Due to adoption of new KAI Opinion 06-2 in 2008 and 2007, retained earnings before appropriations increased by KRW 4,439,411 and decreased by KRW 1,713,733 thousand as of December 31, 2008 and 2007, respectively.

**D Change Accounting Policy on Inventories**

The Company changed its accounting policy of determining the cost of inventories from the yearly weighted-average method to the monthly weighted-average method in 2008. The Company believes that the monthly weighted-average method is more effective in matching of revenue and costs. The effects of the change are as follows:

Korean won (In thousands)

Descriptions	Accounting policy before change	Accounting policy after change
Inventories at the end of period	1,215,909,948	1,246,785,386
Operating income	177,323,355	208,783,668
Income before income tax	49,854,997	80,730,435
Net income	1,158,263	23,542,956
Parent company interest	(42,537,298)	(20,152,604)
Minority interests	43,695,560	43,695,560
Basic and diluted earning per share	(289)	(137)

**E Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and in banks and short-term financial instruments with original maturities of less than ninety days, which can be converted into cash and whose risk of value fluctuation arising from changes of interest rates is not material.

**F Allowance for Doubtful Accounts**

The Company and its subsidiaries provide an allowance for doubtful accounts based on management's estimate of the collectability of receivables and prior years' collection experience.

**G Transfer or Discounting of Accounts Receivable**

The Company and its subsidiaries transfers or discounts certain accounts or notes receivable to financial institutions and accounts for the transactions as a disposal of the receivables if the rights and obligations relating to the receivables are substantially transferred to the buyers. The losses from the disposal of the receivables are classified as other expenses.

**H Inventories**

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

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

**I Investments in Securities other than those Accounted for Using the Equity Method**

## A) Classification of securities

At acquisition, the Company and its subsidiaries classify securities into one of the three categories: trading, held-to-maturity or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Held-to-maturity securities are those with fixed or determinable payments and fixed maturity that the Company and its subsidiaries have the positive intent and ability to hold to maturity. Available-for-sale securities are those not classified as either held-to-maturity or trading securities. Trading securities are classified as current assets, whereas available-for-sale and held-to-maturity securities are classified as non-current assets, except for those whose maturity dates or whose likelihood of being disposed of are within one year from balance sheet date, which are classified as current assets.

## B) Valuation of securities

Securities are recognized initially at cost, which includes the market price of the consideration given to acquire them and incidental expenses. If the market price of the consideration is not reliably determinable, the market prices of the securities purchased are used as the basis for measurement. If neither the market prices of the consideration given nor those of the acquired securities are available, the acquisition cost is measured at the best estimates of its fair value.

After initial recognition, held-to-maturity securities are stated at amortized cost. The difference between their acquisition costs and face values of held-to-maturity securities is amortized over the remaining term of the securities by applying the effective interest method and added to or subtracted from the acquisition costs and interest income of the remaining period. Trading securities are valued at fair value, with unrealized gains or losses included in current operations. Available-for-sale securities are also valued at fair value, with unrealized gains or losses included in accumulated other comprehensive income (loss), until the securities are sold or if the securities are determined to be impaired and the lump-sum cumulative amount of accumulated other comprehensive income (loss) is included in current operations.

However, available-for-sale securities that are not traded in an active market and whose fair values cannot be reliably estimated are accounted for at their acquisition costs. For those securities that are traded in an active market, fair values refer to those quoted market prices, which are measured as the closing price at the balance sheet date. The fair value of non-marketable securities are measured at the discounted future cash flows by using the discount rate that appropriately reflects the credit rating of issuing entity assessed by a publicly reliable independent credit rating agency. If application of such measurement method is not feasible, estimates of the fair values may be made using a reasonable valuation model or quoted market prices of similar debt securities issued by entities conducting similar business in similar industries.

Securities are evaluated at each balance sheet date to determine whether there is any objective evidence of impairment loss. When any such evidence exists, unless there is a clear counter-evidence that recognition of impairment is unnecessary, the Company and its subsidiaries estimate the recoverable amount of the impaired security and recognizes any impairment loss in current operations. The amount of impairment loss of the held-to-maturity security or non-marketable equity security is measured as the difference between the recoverable amount and the carrying amount. The recoverable amount of held-to-maturity security is the present value of expected future cash flows discounted at the securities' original effective interest rate. For available-for-sale debt or equity security, the amount of impairment loss to be recognized in the current period is determined by subtracting the amount of impairment loss of debt or equity security already recognized in prior period from the amount of amortized cost in excess of the recoverable amount for debt security or the amount of the acquisition cost in excess of the fair value for equity security.

If the realizable value subsequently recovers, in case of a security stated at fair value, the increase in value is recorded in current operations, up to the amount of the previously recognized impairment loss, while for the security stated at amortized cost or acquisition cost, the increase in value is recorded in current operation, so that its recovered value does not exceed what its amortized cost would be as of the recovery date if there had been no impairment loss.

When transfers of securities between categories are needed because of changes in an entity's intention and ability to hold those securities, such transfer is accounted for as follows: trading securities cannot be reclassified into available-for-sale and held-to-maturity securities, and vice versa, except when certain trading securities lose their marketability. Available-for-sale securities and held-to-maturity securities can be reclassified into each other after fair value recognition. When held-to-maturity security is reclassified into available-for-sale security, the difference between the book value and fair value is reported in accumulated other comprehensive income (loss). Whereas, in case available-for-sale security is reclassified into held-to-maturity securities, the difference is reported in accumulated other comprehensive income (loss) and amortized over the remaining term of the securities using the effective interest method.

C) Entrusted assets to investment advisory companies

The Company and its subsidiaries classify entrusted assets to investment advisory companies into one of the two categories: trading or available-for-sale. Trading securities are those that were acquired principally to generate profits from short-term fluctuations in prices. Available-for-sale securities are those that were acquired to hedge market interest change by entrusted investments and advanced redemption risk of bonds and to hedge risk against foreign exchange.

#### **J Investments Securities Accounted for Using the Equity Method**

Equity securities held for investment in companies in which the Company is able to exercise significant influence over the operating and financial policies of the investees are accounted for using the equity method. Differences between the initial purchase price and the Company and its subsidiaries' initial proportionate ownership of the net book value of the investee are amortized over five years using the straight-line method. Under the equity method, the change in the Company and its subsidiaries' portion of an investee's net equity resulting from a change in an investee's net equity is reflected in the Company and its subsidiaries' net income (loss), retained earnings, capital adjustments and accumulated other comprehensive income (loss), in accordance with the causes of the change, which consist of the investee's net income (loss), changes in retained earnings, changes in capital surplus, capital adjustments and accumulated other comprehensive income (loss).

1) Application of goodwill

The difference between the fair value of the consideration given and the net fair value of the identifiable assets and liabilities acquired is recognized as goodwill or negative goodwill, which is amortized using the straight-line method for 10 years or reversed using the straight-line method based on the weighted average useful life among discernable non-monetary assets of the investees.

2) Elimination of inter-company transactions' unrealized gain (loss)

- A) Unrealized profit arising from sales by the Company and its subsidiaries to the investees is proportionately eliminated. However, unrealized profit arising from sales by the Company to its subsidiaries is fully eliminated.
- B) Unrealized profit arising from sales by the investees to the Company and its subsidiaries is proportionately eliminated.

3) Translation of overseas affiliates' financial statements

For overseas affiliates whose financial statements are prepared in foreign currencies, assets and liabilities are translated at the exchange rate at the balance sheet date, shareholder's equity is translated at the historical exchange rate and the items in the statement of income are translated at the weighted average exchange rate for the reporting period. Net translation adjustments are recorded as a component of shareholders' equity.

4) Impairment losses

If the amount recoverable from an investment in an associate (hereinafter referred to as the recoverable amount) is less than its carrying amount, the Company and its subsidiaries consider recognition of an impairment loss. Pursuant to Korea Accounting Standards for investments in securities, the Company and its subsidiaries determine whether there is objective evidence that impairment loss has been incurred, and when such evidence exists, impairment loss is recognized in accordance with Korea Accounting Standards for impairment losses. The recoverable amount is determined as the higher of value in use or expected amount of net cash inflows from disposal of the investment in the associate. If there is any amount of unamortized investment difference when the Company and its subsidiaries recognize impairment loss on an investment in an associate, the remaining balance of the investment difference is reduced first. If the recoverable amount of an investment in an associate increases after recognizing an impairment loss, the amount of increase is recognized as current income to the extent of the impairment loss previously recognized.

5) Discontinuance of equity method

The Company and its subsidiaries discontinue the equity method of accounting for investments in equity method investees when the Company and its subsidiaries' share of accumulated losses equals the costs of the investments and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods that the equity method was suspended.

#### **K Property, Plant and Equipment and Related Depreciation**

Property, plant and equipment are stated at cost, (except for assets revalued upward in accordance with the Asset Revaluation Law of Korea), net of accumulated depreciation. Routine maintenance and repairs are expensed as incurred. Expenditures that result in the enhancement of the value or extension of the useful lives of the facilities involved are capitalized as additions to property, plant and equipment.

Upon the application of SKAS No. 7 - Capitalization of Borrowing Costs, interest costs incurred in connection with the purchase or construction of investment assets and property, plant and equipment are capitalized as part of the cost of such assets. Due to this application, the capitalized financing costs amount to KRW 4,696,267 thousand and KRW 14,372,391 thousand in 2008 and 2007, respectively. As a result, net income in 2008 and 2007 increased by KRW 3,404,793 thousand and KRW 10,419,983 thousand, respectively.

Depreciation is computed using the declining-balance method (except for buildings and structures of which the straight-line method is used) based on the estimated useful lives of the assets as follows:

<b>Assets</b>	<b>Useful lives (Years)</b>
Building	2 - 60
Structures	2 - 50
Machinery and equipment	2 - 15
Vehicles	2 - 19
Tools, furniture and fixtures	2 - 30

The Company and its subsidiaries assess any possible recognition of impairment loss when there is an indication that expected future economic benefits of a tangible asset is considerably less than its carrying amount, as a result of technological obsolescence or rapid declines in market value. When it is determined that an asset may have been impaired and that its estimated total future cash flows from continued use or disposal is less than its carrying amount, the carrying amount of a tangible asset is reduced to its recoverable amount and the difference is recognized as an impairment loss.

If the recoverable amount of the impaired asset exceeds its carrying amount in subsequent reporting period, the amount equal to the excess is treated as the reversal of the impairment loss; however, it cannot exceed the carrying amount that would have been determined had no impairment loss been recognized.

**L Intangible Assets**

Intangible assets, consisting of industrial property rights and other intangible assets, are recorded at cost, net of accumulated amortization, which is computed using the straight-line method over following estimated useful lives:

Assets	Estimated useful lives (Years)
Industrial property rights	5 - 20
Other intangible assets	2 - 50

The Company and its subsidiaries assess the potential impairment of intangible assets when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets is recorded in current operations up to the cost of the assets, net of accumulated amortization before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

**M Valuation of Receivables and Payables at Present Value**

Receivables and payables arising from long-term installment transactions, long-term cash loans (borrowings) and other similar loans (borrowings) transactions are stated at present value, if the difference between nominal value and present value is material. The difference between nominal value and present value is presented as present value discount. The present value discount is amortized using the effective interest method, and the amortization is included in interest expense or interest income.

**N Foreign Currency Transactions and Translation**

The Company and its subsidiaries maintain its accounts in Korean won. Transactions in foreign currencies are recorded in Korean won based on the prevailing rates of exchange on the transaction date. Accounts with balances denominated in foreign currencies are recorded and reported in the accompanying financial statements at the exchange rates prevailing at the balance sheet date. The balances have been translated using the Basic Rate announced by Seoul Money Brokerage Services, Ltd., which was KRW 1,257.50 and KRW 938.20 to USD1.00 at December 31, 2008 and 2007, respectively, and translation gain or losses are reflected in current non-operating income (expense).

**O 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 service with the Company and its subsidiaries, based on their length of service and rate of pay at the time of termination.

The accrued severance benefits that would be payable assuming all eligible employees were to resign amount to KRW 131,038,859 thousand and KRW 132,768,914 thousand of December 31, 2008 and 2007, respectively. Before April 1999, the Company and its employees paid 3 percent and 6 percent, respectively, of monthly pay (as defined) to the National Pension Fund in accordance with the National Pension Law of Korea. The Company paid half of the employees' 6 percent portion and is paid back at the termination of service by netting the receivable against the severance payment. Such receivables are presented as a deduction from accrued severance benefits.

The Company and its subsidiaries have purchased individual severance indemnity insurance with Samsung Life Insurance Co., Ltd. and other insurance companies. The insurance deposits in which the beneficiary is a respective employee are presented as deduction from accrued severance benefits.

Actual payments of severance indemnities amounted to KRW 21,636,969 thousand and KRW 16,678,829 thousand in 2008 and 2007, respectively.

**P Provisions**

Provisions are recognized when the Company and its subsidiaries have a present obligation as a result of a past event or transaction, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is used only for expenditures for which the provision was originally recognized. Accordingly, the Company and its subsidiaries provided provisions for product warranties and products liability (Notes 12 and 14).

**Q Derivative Instruments**

All derivative instruments are accounted for at fair value with the valuation gain or loss recorded as an asset or liability. If the derivative instrument is not part of a transaction qualifying as a hedge, the adjustment to fair value is reflected in current operations. The accounting for derivative transactions that are part of a qualified hedge based both on the purpose of the transaction and on meeting the specified criteria for hedge accounting differs depending on whether the transaction is a fair value hedge or a cash flow hedge. Fair value hedge accounting is applied to a derivative instrument designated as hedging the exposure to changes in the fair value of an asset or a liability or a firm commitment (hedged item) that is attributable to a particular risk. The gain or loss both on the hedging derivative instruments and on the hedged item attributable to the hedged risk is reflected in current operations.

Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flows of an asset or a liability or a forecast transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as accumulated other comprehensive income (loss) and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as accumulated other comprehensive income (loss) is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in accumulated other comprehensive income (loss) is added to or deducted from the asset or the liability.

**R Revenue Recognition**

Revenue from sale of goods is recognized when the Company and its subsidiaries have transferred significant risks and rewards of goods to the buyer.

**S Income Tax Expense and Deferred Income Taxes**

Income tax expense is determined by adding or deducting the total income tax and surtaxes to be paid for the current period and the changes in deferred income tax assets or liabilities. In addition, current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity in the same or different period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits. Deferred tax liabilities are generally recognized for all taxable temporary differences with some exceptions and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets or liabilities for financial reporting and according to the expected reversal date of the specific temporary difference if they are not related to an asset or liability for financial reporting, including deferred tax assets related to carryforwards. Deferred tax assets and liabilities in the same current or non-current classification are offset if these relate to income tax levied by the same tax jurisdictions.

#### **I Use of Estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company and its subsidiaries may undertake in the future, actual results may be differ from those estimates.

### 03. Restricted Financial Instruments

Deposits with withdrawal restrictions as of December 31, 2008 and 2007 are as follows: Korean won (In thousands)

Accounts	2008	2007	Description
Short-term investment assets	600,000	600,000	Pledged
Long-term financial instruments	26,500	37,500	Guarantee deposits for checking accounts
<b>Total</b>	<b>626,500</b>	<b>637,500</b>	

### 04. Inventories

Inventories as of December 31, 2008 and 2007 are as follows Korean won (In thousands)

	Acquisition cost		Inventory valuation		Inventory valuation		Loss (Gain) on valuation	
	2008	2007	2008	2007	2008	2007	2008	2007
Finished goods	571,954,786	287,096,998	561,220,481	275,210,894	10,734,305	11,886,104	(1,151,799)	9,523,974
Work-in-process	37,695,792	29,275,002	37,695,792	29,275,002	-	-	-	(375,056)
Raw materials	158,716,731	79,539,549	156,910,213	78,964,114	1,806,518	575,435	1,231,083	296,120
Supplies	25,834,935	22,473,450	25,455,751	22,094,266	379,184	379,184	-	-
Materials in transit	465,503,149	284,792,272	465,503,149	284,792,272	-	-	-	-
<b>Total</b>	<b>1,259,705,393</b>	<b>703,177,271</b>	<b>1,246,785,386</b>	<b>690,336,548</b>	<b>12,920,007</b>	<b>12,840,723</b>	<b>79,284</b>	<b>9,445,038</b>

For the years ended December 31, 2008 and 2007, the Company recognized loss on valuation of inventories amounting to KRW 79,284 thousand and KRW 9,445,038 thousand on inventories, respectively, which are added to cost of sales.

### 05. Short-term Investment Assets

Short-term investment assets as of December 31, 2008 and 2007 are as follows: Korean won (In thousands)

Accounts	2008	2007
Short-term financial instruments	37,046,121	34,714,285
Trading securities	82,516	-
Available-for-sale securities	-	1,274,399
Short-term loans	33,434,605	5,746,091
<b>Total</b>	<b>70,563,242</b>	<b>41,734,775</b>

### 06. Securities

#### **A Available-for-Sale Securities**

Available-for-sale securities as of December 31, 2008 and 2007 are as follows:

Accounts	2008	2007
Equity securities	3,722,921	4,925,667
Debt securities	-	62,875
Entrusted assets to investment service companies	5,064,797	10,560,318
<b>Total</b>	<b>8,787,718</b>	<b>15,548,860</b>

Valuation of equity securities as of December 31, 2008 and 2007 is as follows: Korean won (In thousands)

	2008	2007
Acquisition cost	36,891,842	18,228,406
Unrealized gain (loss)	(302,531)	(212,679)
Accumulated loss on impairment	(32,866,390)	(13,090,060)
Book value	3,722,921	4,925,667

Fair value of equity securities are KRW 4,547,652 thousand and KRW 5,437,160 thousand as of December 31, 2008 and 2007, respectively.

Valuation of debt securities as of December 31, 2008 and 2007 are as follows: Korean won (In thousands)

Descriptions	Face value		Book value	
	2008	2007	2008	2007
Government and public bonds	-	62,875	-	62,875

The Company and its subsidiaries have entered into discretionary asset management contracts with investment trust management Company (FWS Investment Advisory Corporation), in order to manage cash equivalent, available-for-sale securities and derivatives amounting to KRW 1,612,097 thousand, KRW 3,448,421 thousand and KRW 4,279 thousand, respectively, as of December 31, 2008.

The Company recorded loss on valuation of the entrusted assets amounting to KRW 5,493,162 thousand as accumulated other comprehensive loss as of December 31, 2008.

**B Held-to-maturity Securities**

Korean won (In thousands)

Description	2008		2007	
	Acquisition cost	Carrying book value	Acquisition cost	Carrying book value
Privately placed bond	10,000,000	10,000,000	-	-
Subordinated bank debentures	2,000,000	2,000,000	-	-
Government and public bonds	2,400	2,400	3,549	3,549
<b>Total</b>	<b>12,002,400</b>	<b>12,002,400</b>	<b>3,549</b>	<b>3,549</b>

**C Maturity of Debt Securities**

The annual maturities of debt securities as of December 31, 2008 and 2007 are as follows:

Korean won (In thousands)

	Short-term available-for-sale		Available-for-sale		Held-to-maturity	
	2008	2007	2008	2007	2008	2007
Less than 1 year	-	1,274,399	-	-	-	1,071
More than 1 year-5 years	-	-	-	62,875	10,002,400	2,428
More than 5 years	-	-	-	-	2,000,000	-
<b>Total</b>	<b>-</b>	<b>1,274,399</b>	<b>-</b>	<b>62,875</b>	<b>12,002,400</b>	<b>3,549</b>

**07. Investment Securities Accounted for using the Equity Method**

1) Investment securities accounted for using the equity method as of December 31, 2008 and 2007 are as follows:

Korean won (In thousands)

Company	Percentage of ownership (%)		Acquisition cost		Book value	
	2008	2007	2008	2007	2008	2007
Hankook Tire Italia SARL (*1)	-	100	-	20,556	-	20,556
Hankook Espana S.A. (*1)	-	100	-	76,873	-	76,873
Hankook Tyre Australia Pty., Ltd. (*1)	100	100	68,649	68,649	68,649	68,649
Hankook Tire Netherlands Sales B.V. (*1)	100	100	24,966	24,966	24,966	24,966
Hankook Tire Europe GmbH (*1)	100	100	30,716	30,716	30,716	30,716
Hankook Tire Budapest kereskedelmi kft (*1)	-	100	-	15,744	-	15,744
Hanyang Tire Sales Corp. (*1)	50.01	50.1	75,150	75,150	75,150	75,150
Daehwa Eng' & Machinery Jiaxing (*1)	-	15	-	516,555	-	516,555
FRIXA Co., Ltd.	100	100	2,030,670	2,030,670	2,803,569	2,226,346
Others (*1)	100	100	128,450	128,450	-	128,450
			<b>2,358,601</b>	<b>2,839,323</b>	<b>3,003,050</b>	<b>3,184,005</b>

(\*1) Investments in non-marketable equity securities, in which the Company's interest is 20% or more, have been recorded at cost as the total assets of each investee is less than KRW 7 billion, and differences between investments using the equity and cost accounting methods were not significant.

2) The changes in the investment securities accounted for using the equity method for the years December 31, 2008 and 2007 consist of the following

Korean won (In thousands)

	2008	2007
Beginning balance	3,184,005	13,958,091
Changes of scope in consolidation	(113,173)	(11,998,547)
Acquisition	-	174,910
Gain on valuation	577,223	532,997
Loss on valuation	-	-
Others	(645,005)	516,554
Ending balance	3,003,050	3,184,005

3) The summarized financial information of investees

Korean won (In thousands)

Investee	Assets	Liabilities	Net assets	Sales	Net income (loss)
Hankook Tyre Australia Pty., Ltd.	490,710	726,118	(235,408)	1,730,421	(372,160)
Hankook Tire Netherlands Sales B.V.	198,475	384,643	(186,168)	2,323,618	(331,226)
Hankook Tire Europe GmbH	6,422,068	5,206,475	1,215,593	13,492,750	813,334
Hanyang Tire Sales Corp.	1,614,365	1,928,023	(313,658)	641,902	(260,706)
FRIXA Co., Ltd.	6,856,264	4,052,695	2,803,569	8,815,219	577,223
	15,581,882	12,297,954	3,283,928	27,003,910	426,465

## 08. Property, Plant and Equipment

1) As of December 31, 2008 and 2007, the published value of the Company and its subsidiaries' land are KRW 516,568,642 thousand and KRW 493,372,262 thousand, respectively, based on the disclosed public land price announced by the Korean Government.

2) The changes in property, plant and equipment for the years ended December 31, 2008 and 2007 are as follows:

2008								Korean won (In thousands)
	Beginning balance	Change of scope					Ending balance	
		in consolidation	Acquisition	Disposal	Depreciation	Others		
Land	347,010,905	(2,749,315)	3,199,353	(104,950)	6,306,518	353,662,511		
Buildings	764,549,268	(6,547,041)	29,417,557	(2,590,934)	(27,688,580)	168,935,958	926,076,228	
Structures	68,352,115	(1,333,975)	364,902	(549,317)	(5,413,503)	10,262,924	71,683,146	
Machinery and equipment	830,817,708	(13,849,942)	63,798,697	(4,284,952)	(282,446,515)	403,215,611	997,250,607	
Vehicles	8,171,805	(110,835)	1,138,623	(972,218)	(5,233,006)	3,610,510	6,604,879	
Tools, furniture and fixtures	165,889,713	(4,405,805)	62,783,896	(3,044,161)	(91,118,724)	41,052,546	171,157,465	
Machinery in transit	9,844,562	-	22,778,552	-	-	(17,522,792)	15,100,322	
Construction in progress	188,199,664	-	158,388,452	-	-	(226,784,786)	119,803,330	
<b>Total</b>	<b>2,382,835,740</b>	<b>(28,996,913)</b>	<b>341,870,032</b>	<b>(11,546,532)</b>	<b>(411,900,328)</b>	<b>389,076,489</b>	<b>2,661,338,488</b>	

2007								Korean won (In thousands)
	Beginning balance	Change of scope					Ending balance	
		in consolidation	Acquisition	Disposal	Depreciation	Others		
Land	316,456,775	11,743,689	3,664,779	(1,651,161)	-	16,796,823	347,010,905	
Buildings	613,122,857	-	40,393,896	(1,002,015)	(22,846,472)	134,881,002	764,549,268	
Structures	30,104,335	-	1,493,083	(5,791)	(3,540,491)	40,300,979	68,352,115	
Machinery and equipment	557,760,199	-	107,605,893	(1,589,733)	(185,354,316)	352,395,665	830,817,708	
Vehicles	6,302,810	164,705	2,199,849	(181,082)	(4,604,238)	4,289,761	8,171,805	
Tools, furniture and fixtures	140,708,294	205,847	58,544,784	(1,967,992)	(72,813,233)	41,212,013	165,889,713	
Machinery in transit	43,170,099	-	70,895,714	-	-	(104,221,251)	9,844,562	
Construction in progress	100,739,096	158,821,061	513,785,405	-	-	(585,145,898)	188,199,664	
<b>Total</b>	<b>1,808,364,465</b>	<b>170,935,302</b>	<b>798,583,403</b>	<b>(6,397,774)</b>	<b>(289,158,750)</b>	<b>(99,490,906)</b>	<b>2,382,835,740</b>	

As of December 31, 2008, a certain portion of the Company's land, buildings and equipment pledged as collateral for long-term and short-term debt obligations (Note 14). Also, the property, plant and equipment are insured by general insurance (Note 14).

## 3) Capitalization of Borrowing Costs

Recalculated items in the non-consolidated balance sheet as of December 31, 2008, after reflecting the effects of the adoption of SKAS No. 7, are as follows:

Korean won (In thousands)			
	Capitalized	Expensed	Difference
Property, plant and equipment	4,953,707,130	4,949,010,863	4,696,267
Acquisition cost			
Carrying book value	2,661,338,488	2,656,642,221	4,696,267
Shareholders' equity (*1)	1,767,885,242	1,764,480,449	3,404,793

Recalculated items in the non-consolidated statement of income for the year ended December 31, 2008, after reflecting the effects of the adoption of SKAS No. 7, are as follows:

	Capitalized	Expensed	Difference
Interest expense	82,053,597	86,749,864	(4,696,267)
Net income (*1)	23,542,956	20,138,163	(3,404,793)
Shareholders' equity (*1)	1,767,885,242	1,764,480,449	3,404,793

(\*1) Calculated by using the effective tax rate

## 09. Intangible Assets

1) Intangible assets as of December 31, 2008 and 2007 consist of the following

	Acquisition cost		Accumulated amortization and impairment loss		Book value	
	2008	2007	2008	2007	2008	2007
	Industrial rights	4,774,815	3,366,764	2,955,511	2,508,160	1,819,304
Other intangible assets	50,155,249	45,586,279	31,146,758	26,930,459	19,008,491	18,655,820
<b>Total</b>	<b>54,930,064</b>	<b>48,953,043</b>	<b>34,102,269</b>	<b>29,438,619</b>	<b>20,827,795</b>	<b>19,514,424</b>

Impairment loss on intangible assets amounting to KRW 950,898 thousand is included for the year ended December 31, 2008.

2) The changes in intangible assets for the years ended December 31, 2008 and 2007 are as follows:

2008							Korean won (In thousands)
	Beginning balance	Change of scope		Acquisition / Disposal	Amortization	Others	Ending balance
		in consolidation					
Industrial rights	858,604	(15,454)		23,996	(487,037)	1,439,195	1,819,304
Other intangible assets	18,655,820	(377,080)		380,533	(3,714,730)	4,063,948	19,008,491
<b>Total</b>	<b>19,514,424</b>	<b>(392,534)</b>		<b>404,529</b>	<b>(4,201,767)</b>	<b>5,503,143</b>	<b>20,827,795</b>

2007							Korean won (In thousands)
	Beginning balance	Change of scope in consolidation		Acquisition / Disposal	Amortization	Others	Ending balance
Industrial rights	992,437	-		57,312	(388,111)	196,967	858,604
Other intangible assets	20,840,430	-		296,666	(3,449,494)	968,217	18,655,820
<b>Total</b>	<b>21,832,867</b>	<b>-</b>		<b>353,978</b>	<b>(3,837,605)</b>	<b>1,165,184</b>	<b>19,514,424</b>

Ordinary research and development expenses amounting to KRW 94,775,055 thousand and KRW 95,579,343 thousand are included in selling and administrative expenses for the years ended December 31, 2008 and 2007, respectively.

## 10. Borrowings and Debentures

1) Short-term borrowings as of December 31, 2008 and 2007 are as follows:

Korean won (In thousands)				
	Lender	Annual interest rate (%)	2008	2007
Foreign trade financing	BOC and others	5.55 - 6.27	92,024,432	27,032,545
Borrowings	KOEXIM and others	2.00 - 8.70	702,369,432	418,708,532
Bank overdrafts	Unicredit Bank and others	5.56 - 9.17	157,730,712	58,575,042
Usance borrowings	Woori Bank and others	2.00 - 10.00	331,225,143	79,760,104
Other	Woori Bank and others	5.33 - 5.43	471,579,249	369,157,662
<b>Total</b>			<b>1,754,928,968</b>	<b>953,233,885</b>

2) Long-term borrowings as of December 31, 2008 and 2007 are as follows:

Korean won (In thousands)				
	Lender	Annual interest rate (%)	2008	2007
Long-term borrowings in Won	The Korea Development	4.25 - 5.76	-	2,955,800
Long-term borrowings in foreign currency	Bank and others	3.82 - 8.11	797,267,901	642,039,191
<b>Sub-total</b>			<b>797,267,901</b>	<b>644,994,991</b>
Less: Current portion				
Current portion of long-term borrowings in Won			-	694,000
Current portion of long-term borrowings in foreign currency			176,858,117	93,639,932
Sub-total			176,858,117	94,333,932
Non-current portion of long-term borrowings in Won			-	2,261,800
Non-current portion of long-term borrowings in foreign currency			620,409,784	548,399,259
Long-term borrowings			620,409,784	550,661,059

Long-term borrowings in foreign currency as of December 31, 2008 and 2007 amount to USD 634,010 thousand and USD 684,331 thousand (including current portion of long-term borrowings in foreign currency), respectively.

3) Debentures as of December 31, 2008 and 2007 are as follows

Korean won (In thousands)					
Description	Issue date	Maturity date	Annual interest rate (%)	2008	2007
The 78th debenture payable	Aug. 09, 2005	Aug. 09, 2008	4.63	-	30,000,000
Registered debenture payable	Jun. 08, 2005	Jun. 08, 2006	7.35	-	5,000,000
The 7th Privately placed debenture	Nov. 27, 2006	Nov. 27, 2009	6.28	10,000,000	10,000,000
Discount on debentures				-	(32,887)
Sub-total				10,000,000	44,967,113
Less: Current portion				10,000,000	34,967,113
Current portion of debenture				10,000,000	35,000,000
Discount on debentures				-	(32,887)
Non-current portion of debenture				-	10,000,000
Discount on debentures				-	-
<b>Total</b>				<b>-</b>	<b>10,000,000</b>

4) Long-term borrowings and debentures as of December 31, 2008 will mature as follows:

Korean won (In thousands)					
Description	2009	2010	2011	2012	2013 thereafter
Long-term borrowings	176,858,117	133,748,431	147,621,869	223,091,713	115,947,771
Debentures	10,000,000	-	-	-	-
<b>Total</b>	<b>186,858,117</b>	<b>133,748,431</b>	<b>147,621,869</b>	<b>223,091,713</b>	<b>115,947,771</b>

## 11. Lease

As of December 31, 2008 and 2007, the Company has lease agreements with several leasing companies, which are recognized as capital leases. The leased assets had been fully depreciated before 2007. Details are as follows:

Korean won (In thousands)				
Accounts	Acquisition cost		Depreciation expense	
	2008	2007	2008	2007
Machinery and equipment	10,075,072	10,075,072	-	-

## 12. Other Non-current Liabilities

1) Details of other non-current liabilities as of December 31, 2008 and 2007 are as follows:

Korean won (In thousands)		
	2008	2007
Product liability reserve	12,575,000	9,382,000
Warranty reserve	37,206,702	25,106,022
Others	1,793,279	1,517,439
<b>Total</b>	<b>51,574,981</b>	<b>36,005,461</b>

2) Details of changes in non-current liabilities reserve for the year ended December 31, 2008 are as follows:

Korean won (In thousands)						
	Beginning balance	Changes of scope	Increase	Decrease	Others	Ending balance
	in consolidation					
Product liability reserve	9,382,000	-	-	-	3,193,000	12,575,000
Warranty reserve	25,106,022	(306,921)	5,342,944	(55,316)	7,119,973	37,206,702
Others	1,517,439	-	275,840	-	-	1,793,279
<b>Total</b>	<b>36,005,461</b>	<b>(306,921)</b>	<b>5,618,784</b>	<b>(55,316)</b>	<b>10,312,973</b>	<b>51,574,981</b>

3) The expected period, of which the warranty reserve will be used, is as follows:

		Korean won (In thousands)
Year		
2009. 1. 1 - 2009.12.31		12,083,980
2010. 1. 1 - 2010.12.31		10,249,828
2011. 1. 1 - 2011.12.31		7,793,870
2012. 1. 1 - 2012.12.31		5,357,268
2013. 1. 1 - 2013.12.31		2,494,679
<b>Sub - total</b>		<b>37,979,625</b>
Less: Present value discount		(772,923)
<b>Total</b>		<b>37,206,702</b>

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

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2008 and 2007 are as follows:

		Korean won (In thousands)			
Account		Foreign currencies		2008	2007
		2008	2007		
<b>Assets</b>					
Cash and cash equivalents	USD	86,256,027	19,000,000	108,466,954	17,825,800
	EUR	12,624,899	20,000,000	22,424,598	27,625,200
Trade receivables	AUD	1,547,995	2,963,715	1,346,756	2,438,693
	CAD	-	1,323,833	-	1,266,789
	CHF	60,320	494,609	71,840	411,530
	EUR	6,893,348	11,905,141	12,244,103	16,444,095
	GBP	1,244,323	905,713	2,261,744	1,697,396
	JPY	56,076,181	95,304,552	781,640	794,201
	NZD	923,910	673,587	671,877	489,798
	SEK	13,137,402	7,465,268	2,137,849	1,094,408
Other Investments	USD	30,230,795	26,046,721	38,015,225	24,437,034
<b>Liabilities</b>					
Trade payables	USD	133,423,297	119,359,534	167,779,796	111,983,115
	EUR	215,327	737,265	382,468	1,018,354
	AUD	80,962	80,962	70,437	66,620
	GBP	31,148	90,904	56,616	170,364
	NZD	6,560	6,560	4,770	4,770
Short - term borrowings	EUR	569,592	13,000,000	1,011,721	17,956,380
	USD	110,256,744	-	138,647,856	-
Long - term borrowings	EUR	93,000,000	93,000,000	165,188,460	128,457,180
Other non - current liabilities	USD	10,000,000	10,000,000	12,575,000	9,382,000

### 14. Commitments and Contingencies

1) As of December 31, 2008, certain portion of the Company's land and buildings pledged as collateral for borrowings are summarized as follows:

		Korean won (In thousands)	
Creditor	Pledged assets	Pledged amount	
The Korea Development Bank and others	Land, buildings, machinery and equipments	KRW	966,790,364
		USD	153,200

2) As of December 31, 2008, inventories and property, plant and equipment are insured against fire and other casualty losses up to approximately KRW 6,253,117,973 thousand.

The Company is insured against future claims that may be brought against it under the Product Liability Act in Korea, which was effective July 1, 2002, which penalizes a manufacturer or seller when a product is defective and causes injury or damage to a person or property. The beneficial interest of insurance is pledged as collateral for the Company's borrowings (The Korea Development Bank: KRW 122,000,000 thousand and USD 110,000 thousand, Woori Bank: KRW 144,149,000 thousand and USD 43,200 thousand). In addition, vehicles are insured by a general and liability insurance policy, and the Company has directors' and officers' liability insurance of up to KRW 10,000,000 thousand.

3) The Company and local subsidiaries' outstanding notes receivable were discounted or assigned amounting to KRW 8,690,366 thousand and KRW 23,281,763 thousand as of December 31, 2008 and 2007, respectively. The Company and local subsidiaries are contingently liable for outstanding balance of trade receivable discounted or assigned to financial institutions, amounting to KRW 540,560,447 thousand (equivalent to USD 429,869 thousand) and KRW 486,480,305 thousand (equivalent to USD 518,524 thousand) as of December 31, 2008 and 2007, respectively.

4) As of December 31, 2008, the Company has purchase agreements on raw rubber materials with several suppliers, which are usually renewed annually. In addition, as of December 31, 2008, the Company has a long-term contract with emFrontier Inc., one of its affiliated companies, to receive maintenance service for the Company's information system.

5) As of December 31, 2008, the Company has technical assistance and export agent agreements with Jiangsu Hankook Tire Co., Ltd., Hankook Tire China Co., Ltd., and Hankook Tire Hungary Ltd. In accordance with the agreements, the Company receives royalties and commissions at a fixed rate.

6) As of December 31, 2008 and 2007, the Company and its subsidiaries' outstanding forward contracts amount to nil and USD 3,581,638 thousand, respectively, to exchange different currencies on specified dates at a specified price.

The Company and its subsidiaries recorded realized gains amounting to KRW 10,035 thousand and KRW 176,208 thousand, and losses amounting to KRW 94,790 thousand and KRW 683,280 thousand for the years December 31, 2008 and 2007, respectively.

7) The Company and its subsidiaries are named as a defendant in various legal actions arising from normal business matters, including product liability. As of balance sheet date, the outcome of these matters is uncertain. The estimated loss of KRW 12,575,000 thousand expected with respect to the litigations was appropriated as product liability allowance. The lawsuit with respect to SHIN-DORIM site was decided at Seoul Cental District Court on October 15, 2007 in favor of the plaintiff. The settlement of claim amounting to KRW 1,793,279 thousand of principal and accrued interest was recorded in other non-current liabilities. However, an appeal is pending at the Seoul High Court as of December 31, 2008.

The Company was named as a defendant in legal actions filed at Tarrant County Court, Texas in the United States of America, with regard to an agreement executed by Ocean Capital (L) Limited, its subsidiary, relating to a USD 28,000 thousand zero-coupon note entered into in December 1998. The lawsuit was dismissed for lack of jurisdiction and motion for rehearing was denied by the Tarrant County Court, Texas, USA.

The plaintiff filed a new lawsuit for USD 10,000 thousand in the Court for the Northern District of Ohio, Eastern Division. The District Court granted summary judgement in favor of the defendant on all claims and the plaintiff's appeal was dismissed. The plaintiff filed an appeal to the Federal Court of which the District Court's decision was reversed for lack of diversity jurisdiction and remanded the case to the District Court to further consider the case consistent with the Federal Court's decision. The entire case of the plaintiff was dismissed and there would no longer be any pending lawsuit as of February 1, 2008.

The Company was named as a defendant in lawsuits filed at the Seoul Central District Court by the Bridgestone on March 14, 2008. The plaintiffs seek claims for unjust enrichment against the Company's NORDIC 3000 for the alleged illegal use of the plaintiffs' foam rubber Tread. The entire case of the plaintiffs was dismissed and the plaintiffs waived appeals on the finding of the court of the first instance on January 16, 2009.

The Company was named as a defendant in lawsuits filed at the fifth Commercial Court of First Instance of Izmir in Turkey by BMC Sanayi ve Ticaret A.S on December 24, 2007. The plaintiffs seek claims for cancellation of Distributorship Agreement on June 1, 2005. The aggregate amount of claims relating to these lawsuits was USD 3,359 thousand. The Court transferred to the Commercial Court of First Instance for lack of jurisdiction and the first debate date would be held in the Commercial Court of First Instance on April 6, 2009.

#### 8) The Bankruptcy of a subsidiary

On April 3, 2008, ASA Co., Ltd., which was subsidiary of the Company, applied to the Daejeon District Court for permission of recovery process. On April 3, 2008, the court decided to start the recovery process. But, on July 3, 2008, as a result of investigation, the court sentenced ASA Co., Ltd's bankruptcy. Accordingly, the Company could not exercise significant influence for ASA Co., Ltd., and the Company reclassified investment securities accounted for using the equity method to available-for-sale securities. As of December 31, 2008, ASA Co., Ltd. is in process of selling its assets.

## 15. Capital Stock

	Korean won (In thousands)	
	2008	2007
Authorized (shares)	250,000,000	250,000,000
Par value	500	500
Outstanding (shares)		
Ordinary share	152,189,929	152,189,929
Capital stock		
Common stock	76,094,965	76,094,965

As of December 31, 2008, the Company holds seven million shares in treasury, amounting to KRW 57,318,201 thousand, to stabilize the market price of its shares of stock, and records treasury stock as a capital adjustment.

## 16. Asset Revaluation

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

## 17. Retained Earnings

Retained earnings as of December 31, 2008 and 2007 consist of following

	Korean won (In thousands)	
	2008	2007
Statutory reserves		
Legal reserve	40,823,323	40,792,190
Voluntary reserves		
Reserve for financial structure improvements	19,320,000	19,320,000
Reserve for business rationalization	47,702,466	47,258,964
Reserve for export losses	4,770,000	4,770,000
Reserve for technology development	4,350,000	4,199,185
Reserve for overseas market development	7,369,667	7,369,667
Dividend equalization reserve	282,700,000	236,700,000
Reserve for officer's retirement benefits	64,013,000	54,975,296
Other voluntary reserve	421,393,394	354,780,088
<b>Sub - Total</b>	<b>851,618,527</b>	<b>729,373,200</b>
<b>Unappropriated retained earnings</b>	<b>26,786,646</b>	<b>208,710,990</b>
<b>Total</b>	<b>919,228,496</b>	<b>978,867,380</b>

#### A) Legal reserve

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

#### B) Reserve for financial structure improvements

In accordance with the provisions of the Financial Control Regulations for the companies listed on the Korea Exchange, the Company is required to appropriate, as a reserve for the improvement of financial structure, an amount equal to a minimum of 10% of its net income, plus at least 50% of the net gain from the disposal of property, plant and equipment after deducting related taxes, until shareholders' equity is equal to 30% of total assets. This reserve is not available for the payment of dividends but may be transferred to capital stock through an appropriate resolution by Board of Directors or used to offset accumulated deficit, if any, with the ratification of the Company's majority shareholders. However, as the Financial Control Regulations was abolished in prior year, the reserve for financial structure improvements and the reserve for financial structure improvements was transferred to voluntary reserves.

## 18. Dividends

The Company declared cash dividends amounting to KRW 21,778,489 thousand (KRW 150 per share) and KRW 37,047,482 thousand (KRW 250 per share) for the years ended December 31, 2008 and 2007, respectively.

## 19. Sales and Cost of Sales

Details of sales and cost of sales for the years ended December 31, 2008 and 2007 are as follows:

	Korean won (In thousands)	
	2008	2007
Sales		
Sales of finished goods	4,537,384,186	3,659,643,916
Other sales	28,878,295	26,367,386
Sales discount	(38,504,038)	(33,787,137)
Sales incentive	(66,549,113)	(66,463,550)
<b>Total</b>	<b>4,461,209,330</b>	<b>3,585,760,615</b>
Cost of sales		
Cost of finished goods sold	3,303,967,428	2,562,647,040
Cost of other goods sold	99,993,608	41,629,028
Valuation loss on inventories, net	79,284	8,946,136
Customs duties reimbursed	(9,006,115)	(9,543,926)
<b>Total</b>	<b>3,395,034,205</b>	<b>2,603,678,278</b>

## 20. Loss on Prior Period Adjustment

Loss arising from correction of an error related to the prior period, which was recorded as non-operating expense for the year ended December 31, 2007, is as follows:

	Korean won (In thousands)	
Account	Description	Amount
Loss on prior period adjustment	Adjustment of accrued severance benefits	3,705,237
Loss on prior period adjustment	Adjustment of estimated warranty expense	77,241

## 21. Income Tax Expense and deferred Tax Assets

1) Income tax expense for the years ended December 31, 2008 and 2007 are as follows:

	Korean won (In thousands)	
	2008	2007
Current income tax of parent company	80,138,496	61,926,125
Changes in deferred income taxes	(11,926,321)	5,989,293
Charges in deferred income tax directly adjusted in equity	(18,929,692)	(3,791,564)
Income tax expense of the parent company	49,282,483	64,123,854
Income tax expense of consolidated subsidiaries and others	7,904,996	(1,802,442)
Income tax expense	57,187,479	62,321,412

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

The changes in accumulated temporary difference for the year ended December 31, 2008 is as follows:

Descriptions	2008
Parent Company	
Beginning balance of accumulated temporary difference, net	48,487,469
Changes in the current year, net	102,404,605
Ending balance of accumulated temporary difference, net	150,892,074
Exclusion from temporary difference due to uncertainty of realization	(87,740,716)
Sub - total, net	63,151,358
Statutory tax rate	24.2%, 22%
Deferred income tax assets of parent company	22,915,410
Deferred income tax assets of consolidated subsidiaries and others	106,282,716
Ending balance of deferred income tax assets in consolidation	129,198,126
Current deferred income tax assets	13,906,330
Non - current deferred income tax assets	115,291,796

3) The effective income tax rate for the years ended December 31, 2008 and 2007 is as follows:

	Korean won (In thousands)	
Description	2008	2007
Income tax expense	57,187,479	62,321,412
Income before income tax	80,730,435	222,012,126
Effective income tax rate	70.8%	28.1%

4) Income tax refunds and additional income tax for prior years

A) Income tax refunds

The Tax Office imposed corporate income tax amounting to KRW 19,785,256 thousand with respect to 1999-2003 taxable income in regular tax audits in 2004. The Company paid additional tax in full but appealed judgment to the National Tax Tribunal (NTT). According to the resolution on the appeal to NTT on February 28, 2007, the Company was refunded KRW 7,804,921 thousand and KRW 1,182,116 thousand for the years ended December 31, 2008 and 2007, respectively, which was recorded in income tax expense, respectively.

## B) Additional income tax for prior years

The Company received official document from Seoul National Tax Service for summon with respect to research facilities investment tax credit for 2004-2007. The Company calculated tax regarding to this summon document and paid additional tax amounting to KRW 302,362 thousand and reflected as income tax expense in 2008.

The Company received official document from Seoul National Tax Service for summon with respect to collateral of overseas subsidiaries in 2007. The Company calculated transfer-pricing taxable adjustment regarding to this summon document and paid additional tax amounting to KRW 821,465 thousand and reflected as income tax expense in 2007.

## 22. Earnings per Share

	Korean won (In thousands)	
	2008	2007
Net income/Ordinary income	(20,152,605)	155,570,556
Weighted average number of common shares outstanding	146,889,741 shares	148,189,929 shares
Basic and diluted earnings per share (In Korean Won)	(137)	1,050

## 23. Statements of Comprehensive Income

Other comprehensive income for the years ended December 31, 2008 and 2007 is as follows:

	Korean won (In thousands)	
	2008	2007
Net income	23,542,956	159,690,714
Cumulative effects of adoption of revised accounting policies	(4,439,411)	(1,713,733)
Other comprehensive income	120,546,816	26,096,763
Comprehensive income	139,650,361	184,073,744
Parent Company interest	95,954,801	179,953,586
Minority interests	43,695,560	4,120,158

## 24. Related Party Transactions

1) Major receivables, payables and transactions between the parent company and consolidated subsidiaries (or other related parties) as of December 31, 2008 and 2007 and for the years ended then are as follows:

	Korean won (In thousands)	
	2008	2007
Trade receivables	132,442,502	91,422,714
Trade payables	52,200,136	65,097,430
Sales and others	1,020,727,926	780,647,396
Purchases and others	269,923,151	244,575,528

2) Major receivables, payables and transactions between consolidated subsidiaries and their related parties as of December 31, 2008 and 2007 and for the years ended then are as follows:

	Korean won (In thousands)	
	2008	2007
Trade receivables	393,499,171	226,564,017
Trade payables	393,499,171	226,564,017
Sales and others	1,136,239,197	780,883,296
Purchases and others	1,136,239,197	780,883,296

3) The Company has provided guarantees with respect to financing by its overseas subsidiaries for the years ended December 31, 2008 and 2007. Such guarantees are as follows:

	Korean won (In thousands)			
	2008		2007	
	Agreement	Outstanding	Agreement	Outstanding
Jiangsu Hankook Tire Co., Ltd.	226,930,817	226,930,817	-	-
Hankook Tire Hungary, Ltd. (*1)	521,687,892	454,474,670	389,259,651	302,842,340
Hankook Tire China Co., Ltd.	142,658,572	117,131,824	-	-
Other overseas affiliated companies	23,033,239	11,101,687	18,629,637	4,143,795
<b>Total</b>	<b>914,310,520</b>	<b>809,638,998</b>	<b>407,889,288</b>	<b>306,986,135</b>

(\*1) The above guarantee amount includes direct suretyship provided to the Hungarian government as follows

	Description
Summary of agreements	To certify that the company should sincerely carry out the investment plan according to the investment contract; otherwise, the company should return some or whole amount of the subsidy provided by the hungarian government.
Guarantee provided	HUF 15,881,000,000 + interest incurred
The term of guarantee	From October 31, 2005 to December 31, 2016

The Company has entered into a subordination agreement in relation to the borrowings of Hankook Reifen Deutschland GmbH and Hankook Tire Italia SARL as of December 31, 2008 as follows:

Creditor bank	Description		
	Korea Exchange Bank (Deutschland) AG	Shinhan Bank (Deutschland) GmbH	Korea Exchange Bank (Deutschland) AG
Borrowings	EUR 22,000,000	EUR 9,500,000	EUR 6,000,000
Subsidiaries	Hankook reifen deutschland GmbH		Hankook Tire Italia SARL
Description	The company's accounts receivable from hankook reifen deutschland gmbh and hankook tire italia sarl are subordinated by the borrowings from those banks.		

## 25. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2008 and 2007 are as follows:

	Korean won (In thousands)	
	2008	2007
Wages	100,535,222	81,544,576
Provision for severance benefits	7,094,670	5,734,688
Employee benefits	18,339,289	15,634,049
Subcontractor expenses	26,339,125	28,034,963
Advertisement	94,262,590	74,566,066
Provision for doubtful accounts	2,504,940	387,947
Depreciation	37,417,498	28,229,081
Fees and charges	50,144,852	31,493,524
Transportation	267,049,109	204,015,365
Warranty	27,005,027	18,130,004
Ordinary development	85,846,237	84,713,572
Others	140,852,898	133,634,557
<b>Total</b>	<b>857,391,457</b>	<b>706,118,392</b>

## 26. Segment Information

Company by geographical segment for the years ended December 31, 2008 and 2007 are as follows:

Market	2008		2007	
	Amounts	Ratio	Amounts	Ratio
North America	498,794,542	18.9%	370,453,713	16.5%
South and Central America	203,298,189	7.7%	109,836,640	4.9%
Asia, except Korea	459,440,690	17.4%	247,035,997	11.0%
Europe	490,693,760	18.6%	571,071,987	25.3%
Local export	238,740,609	9.0%	230,925,868	10.2%
Domestic	753,268,662	28.4%	723,720,068	32.1%
<b>Total</b>	<b>2,644,236,452</b>	<b>100.0%</b>	<b>2,253,044,273</b>	<b>100.0%</b>

Korean won (In thousands)

## 27. Supplemental Cash Flow Information

Significant transactions not affecting cash flows for the years ended December 31, 2008 and 2007 are as follows:

	Korean won (In thousands)	
	2008	2007
Transfer to current - portion of long - term liabilities from long - term debts	176,858,117	129,301,044
Reclassification of machinery - in - transit and construction - in - progress to specific property, plant and equipment accounts	244,307,578	701,190,203
Reclassification of available - for - sale securities to investment securities accounted for using the equity method	-	516,555
<b>Total</b>	<b>421,165,695</b>	<b>831,007,802</b>

## 28. Subsequent Events

1) On January 19, 2009, the Company concluded the new agreements of additional borrowing for the purpose of investment on the facility and others by the decision of the management committee as follows:

Korean won (In thousands)				
Lender	Borrowed date	Maturity date	Amount	Purpose
Standard Chartered First Bank	Jan. 22, 2009	Jan. 22, 2010	20,000,000	Operating Loan
Samsung Life Insurance Co. Ltd.	Jan. 30, 2009	Jul. 30, 2009	30,000,000	Operating Loan
Kyobo Life Insurance Co. Ltd.	Feb. 04, 2009	Feb. 04, 2010	30,000,000	Operating Loan
Korea Development Bank	Repayment in 2 years with a year grace period		90,000,000	Facilities Loan
<b>Total</b>			<b>170,000,000</b>	

# Corporate Governance

## 01. Overview of Corporate Governance including Board of Directors

2) On February 9, 2009, the Company issued the 79th debentures. Such debentures are as follows:

Korean won (In thousands)

	Issue date	Maturity date	Annual interest rate	Amount
79th-1 debentures	Feb. 23, 2009	Feb. 23, 2011	5.43%	50,000,000
79th-2 debentures	Feb. 23, 2009	Feb. 23, 2012	6.34%	70,000,000
<b>Total</b>				<b>120,000,000</b>

3) On February 25, 2009, the Company has provided guarantees with respect to financing for its oversea subsidiary.

	Bank	Agreement	Outstanding	Period of guarantee
Hankook Tire China Co., Ltd.	Standard Chartered Bank (Shanghai)	USD 65,000,000	USD 65,000,000	Feb. 25, 2009 - Jan. 31, 2010

### A Board of Directors

#### 1 Composition

##### A. Authority of Board of Directors

1) The Board of Directors makes decisions on matters prescribed by laws and Articles of Incorporation, matters delegated from the general shareholders' meeting, basic management policies and matters important to business operation.

2) The Board of Directors shall supervise individual directors' execution of duties.

##### B. Notification of director candidates' profile before general shareholders' meeting and recommendation from shareholders

1) On February 25, 2008, reference documents on various management objectives were notified through the "Notice to Convene General Meeting of Shareholders".

A) Candidate's name, date of birth, person who recommends, relationship with major shareholder, whether the person is the candidate for NED or not

Name of candidate	Date of birth	Candidate for NED?	Relationship with major shareholder	Recommended by
Hae - Yung Min	Oct. 29, 1937	Yes	None	NED Recommendation committee
Total(1)person				

B) Candidate's major occupation, profile and transactions with Hankook Tire for the past three years

Name of candidate	Major occupation (Current)	Profile	Transactions with Hankook Tire for the past three years
Hae - Yung Min	NED of Hankook Tire	-1960 Graduated from department of economics of seoul national university -1985 - 1988 Vice - minister of Political Affairs I -1989 - 1995 Chief director of Korea Technology Credit Guarantee Fund -1998 - 2000 Chairman of the Credit Finance Association	NED Recommendation committee

2) On February 27, 2008, reference documents on various management objectives were notified through the "Notice to Convene General Meeting of Shareholders".

A) Candidate's name, date of birth, person who recommends, relationship with major shareholder, whether the person is the candidate for NED or not

Name of candidate	Date of birth	Candidate for NED?	Relationship with major shareholder	Recommended by
Won - Oh Hwang	Jan. 11, 1939	Yes	None	NED Recommendation committee
Yong - Sung Lee	Jan. 10, 1938	Yes	None	NED Recommendation committee
Total(2)person				

B) Candidate's major occupation, profile and transaction with Hankook Tire for the past three years

Name of candidate	Major occupation (Current)	Profile	Transaction with Hankook Tire for the past three years
Won - Oh Hwang	Accountant	·1960 Graduated from Department of Economics of Seoul National University ·1985 - 1988 Vice - minister of Political Affairs I ·1989 - 1995 Chief director of Korea Technology Credit Guarantee Fund ·1998 - 2000 Chairman of the Credit Finance Association	None
Yong - Sung Lee	NED of Hankook Tire	·1960 Graduated from Department of Economics of Seoul National University ·1991 President of Industrial Bank of Korea ·1993 Superintendent of the Office of Bank Supervision Currently an NED of Hankook Tire	None

#### C. NED Candidate Recommendation Committee

Name	NED	Note
Seung - Hwa Suh	Yes	-
Hwi - Joong Kim	Yes	-
Hae - Yung Min	Yes	-
Yong - Sung Lee	Yes	-
Won - Oh Hwang	Yes	-

#### D. Profile of NEDs

Name	Profile	Relationship with major shareholder	Participating in inside/ outside training	Note
Won - Oh Hwang	·1960 Graduated from Department of Economics of Seoul National University ·1981 Completed tax courses in the Southern California Graduate School of the US ·1990 - 1991 Head of the National Tax Tribunal under the Ministry of Finance ·1991 - 1992 Standing member of Securities and Exchange Commission ·1992 - 1995 President of Korea Minting and Security Printing Corporation (KOMSCO) ·1995 - 1996 Chief director of KMSPC (Non - standing) ·1996 - 1998 Invited professor of College of Economics and Commerce of Daejeon University	N/A	-	-
Hae - Yung Min	·1960 Graduated from Department of Economics of Seoul National University ·1985 - 1988 Vice - minister of Political Affairs I ·1989 - 1995 Chief director of Korea Technology Credit Guarantee Fund ·1998 - 2000 Chairman of the Credit Finance Association	N/A	-	-

Continued

Name	Profile	Relationship with major shareholder	Participating in inside/ outside training	Note
Yong - Sung Lee	·1960 Graduated from Department of Economics of Seoul National University ·1988 Head of the Planning and Administration office under the Ministry of Finance ·2001 NED of Hynix Semiconductor Co. Ltd. ·1999 - Now NED of Hyundai Research Institute	N/A	-	-
Sun - Kon Chang	·1969 Completed Korea University Business School courses ·1970 CEO of Hankook Tire Co., Ltd. ·1979 CEO of Dongshin Petrochemical Co., Ltd.	N/A	-	-

## | 2 | Operation of Board of Directors

### A. Major contents of the Board of Directors Terms of Reference

#### 1) Composition

- ① The Board of Directors is comprised of directors (including NEDs).

#### 2) Chairperson

- ① The President & CEO shall chair the Board of Directors.  
② In case when the President & CEO is not able to carry out his/her duty, the Vice President or Managing Director, in the order of command, shall serve as the Board Chairperson.

#### 3) Agenda

- ① Matters related to general shareholders' meeting  
② Matters related to the management  
③ Matters related to finance  
④ Matters related to directors  
⑤ Others

#### 4) Types of Board of Directors meetings

- ① The Board of Directors meetings are comprised of regular directors' meeting and ad-hoc directors meeting.  
② In principle, the regular directors meeting is held every quarter.  
③ The ad-hoc directors meeting is held when necessary.

#### 5) Making a resolution

- ① The passage of a resolution by the Board of Directors shall require the presence of the majority of its members and the consent by the majority of those present, provided that a resolution for dismissal of a Audit Committee member is adopted by two-thirds of the directors.  
② The Board of Directors may allow the whole or part of the members to take part in making a resolution by communication means that transmit and receive video and voice simultaneously without being present at a meeting in person. In this case, such director(s) shall be deemed to be present at the meeting in person.  
③ A director who has conflicting interest with regard to an item on the agenda shall not participate in the voting for that item.  
④ The director who cannot exercise a voting right as specified in the forgoing paragraph is not deemed to constitute the number of directors present in the meeting.

## 6) Minutes

- ① The Board of Directors shall keep meeting minutes regarding decisions made by the Board of Directors.
- ② The minutes contain the agenda items and discussions and they are signed or signed and sealed by directors present at the meeting.
- ③ Shareholders can read the minutes of directors' meetings and request them to be photocopied.
- ④ Hankook Tire may reject the request of the forgoing paragraph by presenting reasons case, shareholders can read or get them to be photocopied after obtaining the permission from the courts.

**B. Key activities of the Board of Directors**

No.	Date	Agenda	Result	Note
08 - The 1st ad-hoc BOD meeting	Jan. 11, 2008	·Product & service transactions with affiliated companies, including the same person	Approved	-
08 - The 1st regular BOD meeting	Jan. 21, 2008	·FY2007 year-end financial reporting	Approved	-
		·Update on HR & organization in 2008	Approved	-
		·Report on mid- to long-term company-wide extension	Approved	-
		·Approval of financial statements and operating report for 54th term	Approved	-
		·Relocation of Seosan sales office	Approved	-
08 - The 2nd ad-hoc BOD meeting	Feb. 11, 2008	·Approval of subordination agreement related to Italian subsidiary's borrowings	Approved	-
		·Approval of extending subordination agreement related to German subsidiary's borrowings	Approved	-
08 - The 3rd ad-hoc BOD meeting	Feb. 27, 2008	·Approval of transactions among affiliated persons	Approved	-
		·Convocation of 54th annual shareholders' meeting	Approved	-
		·Approval of financial statements for 54th term	Approved	-
		·Extension of loan term	Approved	-
08 - The 4th ad-hoc BOD meeting	Mar. 07, 2008	·Supplementary agreement on credit limits	Approved	-
		·Capital increase of holding company in Europe	Approved	-
08 - The 2nd regular BOD meeting	Apr. 17, 2008	·Appointment of Management Committee members	Approved	-
		·FY2008 Q1 financial reporting	Approved	-
		·FY2008 Q1 financial reporting (consolidated)	Approved	-
		·FY2008 Q1 audit report	Approved	-
08 - The 5th ad-hoc BOD meeting	May. 26, 2008	·Acquisition of treasury stock	Approved	-
08 - The 6th ad-hoc BOD meeting	Jun. 30, 2008	·Acquisition of treasury stock	Approved	-
08 - The 3rd regular BOD meeting	Jul. 17, 2008	·FY2008 H1 financial reporting	Approved	-
		·FY2008 H1 financial reporting (consolidated)	Approved	-
08 - The 7th ad-hoc BOD meeting	Oct. 10, 2008	·Payment guarantee for Jiangsu subsidiary's borrowings	Approved	-
08 - The 8th ad-hoc BOD meeting	Oct. 16, 2008	·Payment guarantee for Jiangsu subsidiary's borrowings	Approved	-
08 - The 4th regular BOD meeting	Oct. 20, 2008	·FY2008 Q3 financial reporting	Approved	-
		·FY2008 Q3 financial reporting (consolidated)	Approved	-
		·FY2008 H1 internal accounting management system operation	Approved	-
08 - The 9th ad-hoc BOD meeting	Nov. 24, 2008	·Liquidation of offshore financial subsidiary	Approved	-
08 - The 10th ad-hoc BOD meeting	Dec. 08, 2008	·Payment guarantee for Jiangsu subsidiary's borrowings	Approved	-
		·Payment guarantee for Jiangsu subsidiary's standby LC opening	Approved	-
		·Payment guarantee for Jiaying subsidiary's standby LC opening	Approved	-
		·Payment guarantee for French subsidiary rolling-over borrowings	Approved	-
08 - The 11th ad-hoc BOD meeting	Dec. 15, 2008	·Payment guarantee for Jiangsu subsidiary's standby LC opening	Approved	-
09 - The 1st regular BOD meeting	Jan. 19, 2009	·FY2008 year-end separate financial reporting	Approved	-
		·FY2008 year-end financial reporting (consolidated)	Approved	-
		·Reporting on HR & reorganization in 2009	Approved	-

Continued

No.	Date	Agenda	Result	Note
		·Approval of financial statements and operating report for 55th term	Approved	-
09 - The 1st ad-hoc BOD meeting	Feb. 09, 2009	·79th issuance of unsecured debentures	Approved	-
09 - The 2nd ad-hoc BOD meeting	Feb. 25, 2009	·Convocation of 55th annual shareholders' meeting	Approved	-
		·Approval of financial statements for 55th term	Approved	-
		·Approval of transactions among affiliated persons	Approved	-
		·FY2008 H2 internal accounting management system operations	Approved	-
		·Payment guarantee for Jiaying subsidiary's borrowings	Approved	-
		·Approval of subordination agreement related to Italian subsidiary's borrowings	Approved	-
09 - The 3rd ad-hoc BOD meeting	Mar. 06, 2009	·80th issuance of unsecured debentures	Approved	-
09 - The 4th ad-hoc BOD meeting	Mar. 20, 2009	·Extension of loan term and change in conditions	Approved	-
		·Payment guarantee for Jiangsu subsidiary's borrowings	Approved	-
		·Payment guarantee for Jiaying subsidiary's borrowings	Approved	-

**C. Non-executive directors (NEDs) participation in Board of Directors meeting**

No.	Date	# of NEDs attending the meeting	Note
08 - The 1st ad-hoc BOD meeting	Jan. 11, 2008	4(4)	-
08 - The 1st regular BOD meeting	Jan. 21, 2008	4(3)	-
08 - The 2nd ad-hoc BOD meeting	Feb. 11, 2008	4(2)	-
08 - The 3rd ad-hoc BOD meeting	Feb. 27, 2008	4(3)	-
08 - The 4th ad-hoc BOD meeting	Mar. 07, 2008	4(4)	-
08 - The 2nd regular BOD meeting	Apr. 17, 2008	4(4)	-
08 - The 5th ad-hoc BOD meeting	May. 26, 2008	4(3)	-
08 - The 6th ad-hoc BOD meeting	Jun. 30, 2008	4(4)	-
08 - The 3rd regular BOD meeting	Jul. 17, 2008	4(3)	-
08 - The 7th ad-hoc BOD meeting	Oct. 10, 2008	4(4)	-
08 - The 8th ad-hoc BOD meeting	Oct. 16, 2008	4(3)	-
08 - The 4th regular BOD meeting	Oct. 20, 2008	4(4)	-
08 - The 9th ad-hoc BOD meeting	Nov. 24, 2008	4(4)	-
08 - The 10th ad-hoc BOD meeting	Dec. 08, 2008	4(2)	-
08 - The 11th ad-hoc BOD meeting	Dec. 15, 2008	4(4)	-
09 - The 1st regular BOD meeting	Jan. 19, 2009	4(4)	-
09 - The 1st ad-hoc BOD meeting	Feb. 09, 2009	4(4)	-
09 - The 2nd ad-hoc BOD meeting	Feb. 25, 2009	4(4)	-
09 - The 3rd ad-hoc BOD meeting	Mar. 06, 2009	4(4)	-
09 - The 4th ad-hoc BOD meeting	Mar. 20, 2009	4(4)	-

Note) Number in the parenthesis represents the total number of NEDs.

**D. Composition of Committees under the Board of Directors**

1) Audit committee: please refer to "B" (matters related to the audit system)" below.

2) NED Recommendation committee activities of committees under the board of directors

Name of committee	Member	Name	Objective and authority	Note
NED Recommendation Committee	Currently the CEO of Hankook Tire  Currently an NED of Hankook Tire	Seung - Hwa Suh	Recommend candidates of NEDs	-
		Hwi - Joong Kim		
		Won - Oh Hwang		
		Hae - Yung Min		
		Yong - Sung Lee		

3) Activities of committees under the board of directors

Name of committee	Member	Name	Objective and authority	Note
Management committee	Registered director of Hankook Tire	Seung - Hwa Suh	Deliberation and resolutions on general management	-
		Hwi - Joong Kim	Deliberation and resolutions on finance, etc.	
		Yang - Rae Cho		

Note) Decisions by the Management Committee shall be overruled when related laws and regulations require BOD decisions.

**E. Activities of Committees under the Board of Directors**

1) Audit Committee: Please refer to "E" (Matters related to the audit system)" below.

2) NED Recommendation committee

Name of committee	Date of meeting	Agenda	Approved	Name of NEDs
NED Recommendation committee	Feb. 27, 2008	Recommendation of NED	Yes	Hae - Yung Min <sup>(Attendance Rate 100%)</sup>
				Won - Oh Hwang <sup>(Attendance Rate 100%)</sup>
				<b>Agreed or disagreed</b>
				Agreed
				Agreed

Note) Activities of 2008

3) Management committee

Committee name	Date of meeting	Agenda	Result	Note
Management committee	Apr. 17, 2008	· Appointment of management committee chair	Approved	-
	Apr. 21, 2008	· Extension of loan term	Approved	-
	Apr. 28, 2008	· New payment guarantees for Chinese subsidiary by head office	Approved	-
		· Flotation of short - term borrowings	Approved	-
May. 26, 2008		· Extension of loan term	Approved	-
		· Extension of loan term	Approved	-
		· Extension of loan term	Approved	-
Jun. 16, 2008		· Adjustment of loan term and new agreement	Approved	-
		· Payment guarantee for Japanese subsidiary's local financing	Approved	-
Jun. 23, 2008		· Extension of loan term	Approved	-
		· Payment guarantees for Jiaying subsidiary's local financing	Approved	-
Jul. 17, 2008		· Approval of subordination declaration related to German subsidiary's borrowings	Approved	-
		· Approval of extending subordination agreement related to German subsidiary's borrowings	Approved	-
Jul. 21, 2008		· Extension of loan term	Approved	-
		· Purchase of directors' & officers' liability insurance policy	Approved	-
Jul. 28, 2008		· Payment guarantee for Australian subsidiary's local financing	Approved	-
Aug. 11, 2008		· Extension of loan term	Approved	-
Aug. 25, 2008		· Increase of credit limit	Approved	-
Sep. 22, 2008		· Payment guarantee for Japanese subsidiary's local financing	Approved	-
		· Payment guarantee for Jiaying subsidiary's local financing	Approved	-
Sep. 29, 2008		· Renewal of credit limit	Approved	-
		· Increase of credit limit	Approved	-
Oct. 06, 2008		· Payment guarantee for Jiangsu subsidiary's borrowings	Approved	-
Oct. 10, 2008		· Extension of loan term	Approved	-
Oct. 20, 2008		· Agreement on new borrowings limit	Approved	-
		· Agreement on new credit limit	Approved	-
Oct. 27, 2008		· Agreement on new credit limit	Approved	-
Nov. 03, 2008		· Payment guarantee for Jiangsu subsidiary's local financing	Approved	-
Dec. 08, 2008		· Extension of borrowings	Approved	-
Dec. 29, 2008		· Extension of loan term	Approved	-
		· Increase of credit limit	Approved	-
		· Payment guarantee for Hungarian subsidiary's local financing	Approved	-
Jan. 19, 2009		· Flotation of new borrowings	Approved	-
		· Extension of loan term	Approved	-
		· Agreement on facility renovations investment limit	Approved	-
Feb. 16, 2009		· New credit deal	Approved	-
Feb. 26, 2009		· Payment guarantee for Jiangsu subsidiary's local financing	Approved	-
Mar. 02, 2009		· Capital increase for Australian subsidiary's operating funds	Approved	-

**B Matters Related to the Audit System**

**| 1 Matters related to the internal audit organization**

**A. Establishment and composition of the Audit Committee composed of auditors**

Establishment of Audit Committee: Hankook Tire added to its Articles of Incorporation new provisions on establishing the Audit Committee through a resolution at the 47th ordinary general shareholders' meeting and established an Audit committee as prescribed under Article 415-2 of the Commercial Act. Composition, etc. of the Committee are as below.

1) Composition

- ① Audit Committee members shall be appointed by the resolution of a general shareholders' meeting.
- ② The Committee shall be comprised of at least three members of the Board.
- ③ Persons falling under any of the sub-paragraphs of Article 415(2)2 of the Commercial Act shall not exceed 1/3 of the total members of the Committee.
- ④ In case the requirement stated in the foregoing paragraph 3 is no longer met for a reason such as resignation, death, etc. of a member who is an NED, the first general shareholders' meeting held after this reason arises shall ensure that such requirement is met.

2) Responsibility and authority

- ① Audit Committee shall carry out audits on accounting and business operation of the Company.
- ② Audit Committee may request directors to make reporting on the business operation of the Company or examine the Company's financial status at any time.
- ③ In addition to the responsibility and authority stated in the foregoing paragraph 1 and 2, the Audit Committee shall perform duties as prescribed under relevant laws or the Articles of Incorporation and those delegated by the Board of Directors.

3) Making a resolution

- ① The passage of a resolution by the Audit Committee shall require the presence of the majority of its members and the consent by the majority of those present. The Committee may allow the whole or part of the members to take part in making a resolution by communication means that transmit and receive video and voice simultaneously without being present at a meeting in person. In this case, such members shall be deemed to be present at the meeting in person.

4) Chairperson

- ① A Chairperson who will represent the Audit Committee shall be elected by the Committee among NEDs. Election of a Chairperson shall require the presence of the majority of Committee members and the resolution by the majority of those present. Several members may be elected as Co-Chairpersons to represent the Committee.
- ② The Chairperson generally manages operation of the Audit Committee and may divide duties among members for efficient operation of the Committee.
- ③ In the event that the Chairperson is unable to carry out his/her duty, his/her duty shall be carried out by the member appointed by the Committee.

5) Types of Audit Committee meetings

- ① Meetings of the Committee shall be comprised of ordinary and extraordinary meetings.
- ② An ordinary meeting shall be held once a quarter in principle. Provided, however, that there are any unavoidable circumstances, the Chairperson may postpone or suspend the ordinary meeting.
- ③ An extraordinary meeting may be held from time to time when necessary.

6) Convocation authority

- ① Audit Committee meeting shall be convened by the Chairperson.
- ② Each member may request the Chairperson to convene a meeting by presenting agendas and the reason for the request. In the event that the Chairperson does not convene a meeting without any justifiable reason, the member who made such a request may convene a meeting.

7) Convocation procedure

- ① Audit Committee meeting schedule shall be notified to each member at least a week before the meeting.
- ② When unanimously agreed upon, an Audit Committee meeting may be held at any time without following the procedure stated in the foregoing paragraph 1.

8) Agenda

Agenda to be submitted to a meeting of the Committee for consideration shall be as follows:

- ① Matters related to general shareholders' meetings
- ② Matters related to directors and the Board of Directors
- ③ Matters related to auditors

9) Minutes

- ① The Audit Committee shall keep meeting minutes regarding decisions made by the Committee.
- ② Meeting minutes shall contain records, such as agendas submitted, how the meeting proceeded, the result of the meeting and the name of those opposed to the passage of an agenda along with the reason. The minutes shall be signed or signed and sealed by members present at the meeting.

**B. Establishment of internal control mechanism to ensure Audit Committee members (auditors) access to management data of the Company necessary for audits**

Internal control mechanism aimed at ensuring members' access to such data In order to make it easier for the members to have access to management data necessary for audits, "Audit Committee Operation Policy", an internal regulation was established to form the basis of the members' activities. Under this policy, the members of the Committee may request directors to make reporting on business operation of the Company or examine the Company's financial status at any time.

**C. Profile of Audit Committee members (auditors)**

Name	Work experience	Note
Won - Oh Hwang	Head of the National Tax Tribunal under the Ministry of Finance President of Korea Minting and Security Printing Corporation (KOMSCO) Chairman of KOMSCO	The audit committee established by Hankook Tire is a committee prescribed under Article 191(17)1 of the Securities and Exchange Act.
Hae - Yung Min	Vice minister at Political Affairs I Chief Director of Korea Technology Credit Guarantee Fund Chairman of the Credit Finance Association	
Yong - Sung Lee	Head of the Planning and Administration office under the Ministry of Finance NED of Hynix Semiconductor Co., Ltd. Outside auditor of Hyundai Research Institute	

## | 2 | Key activities of the Audit Committee (Auditors)

Meeting	Date	Agenda	Result	Note
08-1st ordinary meeting	Jan. 21, 2008	FY2007 year-end financial reporting	Approved	-
		FY2007 Q4 audit report	Approved	-
08-2st ordinary meeting	Apr. 17, 2008	FY2008 year-end financial reporting	Approved	-
		FY2008 year-end financial reporting (consolidated)/	Approved	-
		FY2008 Q1 audit report/Approved	Approved	-
08-3st ordinary meeting	Jul. 17, 2008	FY2008 H1 financial reporting	Approved	-
		FY2008 H1 financial reporting (consolidated)/	Approved	-
		FY2006 Q2 audit report	Approved	-
08-4st ordinary meeting	Oct. 20, 2008	FY2008 Q3 financial reporting	Approved	-
		FY2008 Q3 financial reporting (consolidated)/	Approved	-
		FY2008 H1 internal accounting management system operation	Approved	-
		FY2008 Q3 audit report	Approved	-
09-1st ordinary meeting	Jan. 19, 2009	FY2008 year-end separate financial reporting	Approved	-
		FY2008 year-end financial reporting (consolidated)/	Approved	-
		FY2008 Q4 audit report	Approved	-

## | C | Matters Related to Shareholders' Exercising Voting Rights

## | 1 | Accumulative voting

Not adopted

## | 2 | Voting in paper form or Voting in electronic form

Voting in paper form was adopted → It was resolved at the general shareholders' meeting held on March. 17, 2000

## | 3 | Key activities of the Audit Committee (auditors)

N/A

## | D | Directors' Compensation

## | 1 | Information on compensation paid to directors (including NEDs) and Audit Committee members (auditors)

Korean won (in millions)

Classification	Total amount paid	Amount approved at general	Average amount paid	Fair value (total amount) of	Relative	Note
		shareholders' meetings	per director	stock options granted		
Standing directors	872	5,700	138	-	-	-
Registered directors	96					

\* Based on registered directors and compensation during their terms of office

## | 2 | Status of stock options granted and exercised: None as of December. 31, 2008

## | E | Purchase of Directors and Officers Liability Insurance Policy

## | 1 | Overview

As of December. 31, 2008

Korean won

Name of insurance	Insurance premium paid		Maximum indemnification limit	Note
	Amount paid for	Cumulative amount paid(including		
	the current year	the amount paid for the current year)		
Directors and Officers Liability Insurance (D&O Insurance)	19,500,000	19,500,000	10,000,000,000	Jul. 27, 2008 - Jul. 27, 2009

\* The total amount of insurance premium was paid on July 27, 2008, and the insurance policy is effective for a year

## | 2 | Basis for purchasing D&amp;O insurance policy and related procedures

They were resolved at the Board of Directors' meeting held on July 19, 2007(Agenda: Subscription of D&O Insurance)

## | 3 | Insured person

All the directors (officers) of the Company (including any retired directors, directors newly appointed during the term of the D&O Insurance, any deceased directors and their inheritors or companies that manage inherited property, and any bankrupt directors and their trustees)

## | 4 | Damages or expenses covered by indemnification

## A. Damages paid by the insured (including defense costs)

## B. Expenses paid by the insured

- ① Expenses which are deemed necessary or useful for prevention or reduction of losses
- ② Defense costs paid under prior consent of the Company
- ③ Cooperation expenses for complying with demands from the insurer

## | 5 | Exclusions from indemnification by the insurer

- ① Any claim arising out of illegally acquired personal interest by the insured
- ② Any claim arising out of a criminal act of the insured
- ③ Any claim arising out of a wrongful act committed by the insured who recognizes that such act violates relevant laws
- ④ Any claim arising out of remuneration (or bonuses, etc.) paid in violation of relevant laws to the insured
- ⑤ Any claim arising out of the insured's sales and purchase of stocks, corporate bonds, etc. issued by the Company making illegal use of information which is not made public
- ⑥ Any claim arising out of benefits provided to political organizations, public officials or officers or employees of the Company's clients
- ⑦ Any claim arising out of an act committed or a suit filed before the inception date of the insurance
- ⑧ Any claim for damages arising out of pollutants emitted, discharged, leaked, overflowed or released and costs for removing pollutants
- ⑨ Any claim for damages arising out of any accident involving nuclear reaction, nuclear radiation, and other hazardous properties of nuclear materials
- ⑩ Any claim for injury done to human body or property, invasion of privacy, libel, slander, penalties, etc.
- ⑪ Any claim brought by any other insured person, company or subsidiary
- ⑫ Any claim brought by a person owning 15% or more of the stocks issued by the Company
- ⑬ Any claim arising out of an act carried out in the capacity of an officer of a corporation or organization other than the Company

## 02. Affiliated Companies

Company name	Affiliated company	Description	Ownership (%)	Note
Hankook Tire Co., Ltd.	Atlas BX Co. Ltd.	Stock	31.13	-
	Daehwa Eng' & Machinery Co., Ltd.	Stock	95.00	-
	emFrontier Inc.	Stock	50.00	-
	Hanyang Tire Sales Corp.	Stock	50.01	-
	Hankook Tire America Corp.	Stock	100.00	-
	Hankook Tire Canada Corp.	Stock	100.00	-
	Hankook Tyre U.K. Ltd.	Stock	100.00	-
	Hankook Tire Japan Corp.	Stock	100.00	-
	Hankook Tire Europe Holdings B.V.	Stock, investment	100.00	-
	Hankook Reifen Deutschland GmbH	Investment	100.00	-
	Hankook Tire France S.A.R.L.	Investment	100.00	-
	Hankook Tire Netherlands B.V.	Investment	100.00	-
	Hankook Espana S. A.	Investment	100.00	-
	Hankook Tyre Australia Pty., LTD.	Investment	100.00	-
	Hankook Tire China Co., Ltd.	Investment	96.15	-
	Jiangsu Hankook Tire Co., Ltd.	Investment	34.67	-
	OCEAN CAPITAL INVESTMENT (L) LIMITED	Investment	100.00	-
Atlas BX Co., Ltd.	FRIXA Co., Ltd.	Stock	100.00	-
Daehwa Eng' & Machinery Co., Ltd	Daehwa Eng' & Machinery Jiaxing Co., Ltd.	Investment	15.00	-
Shinyang Corp.	Daehwa Eng' & Machinery Jiaxing Co., Ltd.	Investment	85.00	-
Hankook Tire America Corp.	Hankook Tire China Co., Ltd.	Investment	3.85	-
	Jiangsu Hankook Tire Co., Ltd.	Investment	0.47	-
	Shanghai Smile Automobile Service Co., Ltd.	Investment	100.00	-
Hankook Tire China Co., Ltd.	Jiangsu Hankook Tire Co., Ltd.	Investment	64.87	-
	Hankook Tire China Regional Headquarters	Investment	66.00	-
	Shanghai Smile Automobile Service Co., Ltd	Investment	100.00	-
Jiangsu Hankook Tire Co., Ltd.	Hankook Tire China Regional Headquarters	Investment	34.00	-
Hankook Tire Europe Holdings B.V.	Hankook Tire Netherlands Sales B.V.	Investment	100.00	-
	Hankook Tire Italia S.R.L.	Investment	100.00	-
	Hankook Tire Hungary LTD.	Investment	100.00	-
	Hankook Tire Europe GmbH	Stock	100.00	-
	Hankook Tire Budapest Kereskedelmi Kft	Stock	100.00	-

Note 1) As of December 31, 2007

Note 2) Hankook Tire Co., Ltd. invested EUR 30,000,000 in Hankook Tire Europe Holdings B.V. as of April 17, 2007.

Note 3) ASA Co., Ltd. excluded from affiliates list due to its bankruptcy as declared by the Daejeon District Court on July 18, 2008.

## 03. Investment in Affiliated Companies

Affiliated companies' stock													As of December. 31, 2008			Unit: # of shares, million won, %		
Category	Account	Company name or	Invest-	Beginning balance			Increase / decrease			Ending balance			Current net			Note		
				# of	% of owner	Book	# of	Acquisition	# of	% of owner	Book	income of	Gain/loss on	Other	Status			
	headings	stock code	ment	shares	ship	value	shares	(Disposal)	shares	ship	value	affiliate in the	valuation using	increase/				
			objective					cost				most recent	equity method	decrease				
												fiscal year		value				
Domestic	Investment	Atlas BX Co., Ltd.	Affiliated	2,848,685	31.13	15,436	-	-	2,848,685	31.13	34,773	62,335	19,338	(1)	Listed on			
	stocks		company												KOSDAQ			
	evaluated	Daehwa Eng' &	"	380,000	95	5,930	-	-	380,000	95	4,326	(2,150)	(105)	(1,499)	Unlisted			
	using	Machinery Co., Ltd.																
	equity	EmFrontier Inc.	"	2,000,000	50	3,629	-	-	2,000,000	50	4,638	1,971	995	14	Unlisted			
	method of	Hanyang Tire	"	15,030	50.01	75	-	-	15,030	50.01	75	(261)	-	-	Unlisted			
	accounting	Sales Corp.																
Over seas	Investment	Hankook Tire	"	1,600	100	29,380	-	-	1,600	100	24,119	7,537	(18,472)	13,211	Unlisted			
	stocks	America Corp.																
	evaluated	Hankook Tire	"	50,000	100	2,037	-	-	50,000	100	2,078	483	(67)	108	Unlisted			
	using	Canada Corp.																
	equity	Hankook Tyre	"	25,000	100	-	-	-	25,000	100	-	749	-	-	Unlisted			
	method of	U.K.Ltd.																
	accounting	Hankook Tire	"	400	100	-	-	-	400	100	-	(1,757)	-	-	Unlisted			
		Japan Corp.																
		Hankook Tire	"	390,253	100	84,179	-	18,029	390,253	100	-	1	(107,539)	5,331	Unlisted			
		Europe Holdings B.V.																
<b>Total</b>				<b>5,710,968</b>		<b>140,666</b>		<b>18,029</b>	<b>5,710,968</b>		<b>70,009</b>	<b>68,908</b>	<b>(105,850)</b>	<b>17,164</b>				

Note 1) Hankook Tire Co., Ltd. invested EUR 12,000,000 in Hankook Tire Europe Holdings B.V. as of March 13, 2008.

Note 2) Hankook Tire's investment in ASA Co. Ltd. shall be included among

"Available-for-sale securities" instead of "Investment stock evaluated using equity method of accounting" due to its bankruptcy as declared by the Daejeon District Court on July 18, 2008

# Proposed Resolution

## 01. Resolutions Of Shareholders Meeting

Investment in affiliated companies As of December 31, 2008 Unit: # of share, million won, %

Category	Account	Company name or stock code	Investment objective	Beginning balance		Increase/decrease			Ending balance			Current net			Note
				# of shares	% of owner	Book value	# of shares	Acquisition (Disposal)	# of shares	% of owner	Book value	income of affiliate	Gain/loss on valuation using equity method	Other increase/decrease	
Overseas	Investment evaluated using equity method of accounting	Hankook Reifen Deutschland GmbH	Affiliated company	-	100	-	-	-	-	100	-	(57)	-	-	Unlisted
		Hankook Tire France S.A.R.L.	"	-	100	-	-	-	-	100	608	783	266	342	Unlisted
		Hankook Tire Netherlands B.V.	"	-	100	-	-	-	-	100	-	(1,668)	-	-	Unlisted
		Hankook Tire China Co., Ltd.	"	-	96.15	228,042	-	-	-	96.15	248,111	(40,712)	(73,253)	93,322	Unlisted
		Hankook Tire Jiangsu Hankook Tire Co., Ltd.	"	-	34.67	61,141	-	-	-	34.67	61,891	(33,861)	(21,726)	22,476	Unlisted
		Hankook Tyre Australia Pty., LTD.	"	-	100	69	-	-	-	100	69	(372)	-	-	Unlisted
		Hankook Espana S. A.	"	-	100	77	-	-	-	100	901	50	484	340	Unlisted
		OCEAN CAPITAL INVESTMENT (L) LIMITED	"	-	100	9,598	-	-	-	100	72	8	9	(9,535)	Unlisted
<b>Total</b>					<b>298,927</b>					<b>311,652</b>		<b>(75,829)</b>	<b>(94,220)</b>	<b>106,945</b>	

Note 1) Prior years' financial statements have been reworked for the sake of comparison, applying Equity Method of Statements of Korean Accounting Standards (SKAS)

Note 2) Above records are based on 2008 results. A capital increase of AUD 1.5 billion for Hankook Tyre Australia Pty., LTD was completed on March 3, 2009.

Date	Item	Resolution
55th annual shareholders' meeting (Mar. 20, 2009)	1. Approval of balance sheet, income statement, and statement of appropriations of retained earnings (draft) 2. Amendment of Articles of Incorporation	·Approved -Cash dividend of ₩ 150 (1.0% of market price) ·Domestic and overseas operations, including branches, sales offices, local subsidiaries, and plants, may be established by resolution of the BOD or one of its committees. ·Notice of meeting may be substituted by notice on electronic notification system operated by the Financial Supervisory Service or the Korea Exchange, in addition to announcements in newspapers. 3) Reorganized provisions following enactment of Financial Investment Services and Capital Markets Act
	3. Appointment of NED to serve as Audit Committee member	·Hae - Yung Min reappointed as NED (Audit Committee member).
	4. Approval of directors' compensation limit	· Directors' compensation limit for 2009 shall be ₩ 5.7 billion; specifics shall be delegated to Board of Directors.
The 54th ordinary shareholders' meeting (Mar. 21, 2008)	1. Approval of balance sheet, income statement and statement of appropriations of retained earnings (draft) 2. Amendment of Articles of Incorporation	·Approved -Cash dividend ₩ 250 (1.3% of the market price) ·General shareholders' meeting shall be held at the principal office or plant premise, while it could be held at a place located near to such premises, if necessary. ·Management Committee shall be set up to review overall management and financial issues which occur frequently.
	3. Appointment of NED to serve as Audit Committee member	·Won - Oh Hwang and Yong - Sung Lee reappointed as NED (Audit committee member).
	4. Approval of directors' compensation limit	·Directors' compensation limit for 2008 shall be set as 5.7 billion won and the specifics shall be delegated to the board of directors. The 53rd extra - ordinary shareholders' meeting (Jun. 7, 2007)

## 02. Resolution Of Board Of Directors

Please refer to **A** Board of Directors section in Corporate Governance.

## 03. Dividend And Other Matters

**A Dividend**

Hankook Tire's dividends policy is set forth in Article 52 of the Articles of Incorporation as following

- ① Dividends can be paid in cash or stocks.
- ② If stock dividends are to be paid, the Company may decided to issue a different type of stock from existing ones after gaining approval of the shareholders' meeting on this matter.
- ③ Dividends specified in the forgoing paragraph (1) shall be paid to people registered as shareholders as of the end of every fiscal year or beneficiaries entitled to receive dividends.

**B Dividend Information for the Past Three Fiscal Years**

Item		FY 2008	FY 2007	FY 2006
Face value per share (KRW)		500	500	500
Current net income (Million won)		25,412	162,306	170,173
Earning per share (KRW)		173	1,095	1,152
Profit available for dividend (Million won)		998,719	958,139	812,536
Total cash dividend (Million won)		21,778	37,047	37,047
Total stock dividend (Million won)		-	-	-
Cash dividend rate (%)		85.70	22.83	21.77
Cash dividend rate (%)	Common stock	1.01	1.30	1.67
	Preferred stock	-	-	-
Stock dividend yield (%)	Common stock	-	-	-
	Preferred stock	-	-	-
Cash dividend per share (KRW)	Common stock	150	250	250
	Preferred stock	-	-	-
Stock dividend per share (Number of stocks)	Common stock	-	-	-
	Preferred stock	-	-	-

Note) No quarterly/interim dividends in the current fiscal year

**C Matters on Participating Bond**

N/A

## Summary of Key Reports

## Audit Committee's Audit Report

The Audit Committee of Hankook Tire Co. Ltd. carried out auditing on the Company's accounting and business operation from January 1, 2007 to December 31, and reports the results as following:

**A Overview of Audit Methodology**

As for the audit on accounting, ledgers, relevant documents, financial statements and supplementary schedules were closely reviewed. The committee made comparisons, performed due diligence, called on relevant personnel, raised inquiries and took other appropriate audit procedures, if found necessary. To audit business operation, audit committee members attended the Board of Directors' meeting and other important meetings, asked directors for an update, if found necessary, read and closely reviewed documents related to key business and took other appropriate measures.

**B Balance Sheet, Income Statement and Cash Flow**

Hankook Tire's assets, P&L and cash flow were accurately recorded in its balance sheet, income statement and cash flow according to relevant laws and the Articles of Incorporation.

**C Statement of Appropriations of Retained Earnings**

The statement of appropriations of retained earnings is in line with relevant laws and the Articles of Incorporation. In addition, it reflects the Company's financial status and other conditions.

**D Operating Report**

Operating report accurately captures the Company's circumstances according to relevant laws and the Articles of Incorporation.

February 27, 2008

Won-Oh Hwang (Signature)



Chairman of Hankook Tire Audit Committee

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

We have audited the accompanying consolidated balance sheets of Hankook Tire Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, all expressed in Korean won. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain subsidiaries including Atlas BX Co., Ltd., which statements reflect 29.8% and 17.2% of consolidated total assets as of December 31, 2008 and 2007, and 45.2% and 41.6% of consolidated total sales for the years then ended December 31, 2008 and 2007, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of other auditors.

Except as discussed in the following paragraph, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

DaeSung Accounting Corporation audited the financial statements of ASA Co., Ltd, of which statements reflect 0.7% of the consolidated total assets as of December 31, 2007 and 1.8% of the consolidated total sales for the year then ended. The auditor did not express their opinion because of scope limitation on evaluation of ability to continue as a going concern, and existence and evaluation of inventories, property, plant and equipment. Further, for the year ended December 31, 2007, net loss of the subsidiary is KRW 2,996 million and as of December 31, 2007, current liabilities exceed current assets by KRW 22,170 million. The subsidiary applied to the Daejeon District Court for permission of recovery process on March 4, 2008. This situation indicates existence of a material uncertainty that may cast significant doubt on the subsidiary's ability to continue as a going concern. In addition, we were unable to apply other auditing procedures to confirm the fairness of the financial statements.

In our opinion, based on our audits and the reports of other auditors, the 2008 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hankook Tire Co., Ltd. and its subsidiaries as of December 31, 2008, and the results of their operations and changes in its shareholders' equity and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the Republic of Korea. Except for the effects described in the preceding paragraph referred to above, the 2007 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hankook Tire Co., Ltd. and its subsidiaries as of December 31, 2007, and the results of their operations and changes in its shareholders' equity and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the Republic of Korea (See Note 2).

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

March 6, 2009


**Notice to Readers**

This report is effective as of March 6, 2009, the auditors' report date. Certain subsequent events or circumstances may have occurred between the auditors' report date and the time the auditors' report is read. Such events or circumstances could significantly affect the accompanying consolidated financial statements and may result in modifications to the auditors' report.

**Auditor's Opinion on Internal Control Mechanism**
**A Overview of Internal Control Mechanism**
**| 1 | Hankook Tire has the following internal control mechanism and functions**
**A. Board of Directors**

Board of Directors shall supervise individual director's execution of duties.

**B. Audit committee**

Audit committee shall supervise individual director's execution of duties. To this end, it may ask a director to submit reports on business operation or investigate the Company's operation and financial status.

**C. Internal audit department**

Internal audit department performs audit on various teams. The Business Diagnosis Team conducts regular audit and ad-hoc audit based on Hankook Tire's "Internal Audit Policy".

**D. Other internal control mechanism**

- ① Domestic subsidiaries' business performance management: Corporate Management Team2
- ② Due diligence on domestic sales offices: KOR)Marketing Team
- ③ Overseas sales company & offices' performance management: Global Sales Operations Team
- ④ Regular inventory check: Production Management Team
- ⑤ Internal quality assurance: Quality Management Team
- ⑥ Internal environment assessment: Environment & Safety Team of each plant
- ⑦ Operation of internal accounting management system: Accounting Team

**| 2 | The board consists of seven directors including four NEDs.**
**| 3 | Appointment of the standing auditor and guaranteeing the employment status of Audit Team staff**

1) Audit committee members of Hankook Tire are appointed based on Article 415 (2) of the Commercial Act and Article 44 of the Company's Articles of Incorporation (Any shareholder who holds more than 3/100 of the total outstanding shares shall not exercise his/her vote in respect of the shares exceeding the ratio).

2) Auditor shall be consulted before releasing or transferring staff in and out of the Audit Team in order to guarantee the employment status of Audit Team staff.

# Other Information

## 01. Risk Management

### B Operation of Internal Control Mechanism

#### | 1 | Operation cycle

- ① Regular & ad-hoc audit: 10 times a year
- ② Domestic subsidiaries' business diagnosis: 1 time a year
- ③ Domestic subsidiaries' performance management: 1 time a month
- ④ Due diligence on domestic sales offices: 9 sales offices a year
- ⑤ Overseas sales company's performance management: 1 time every quarter
- ⑥ Overseas sales office's performance management: 1 time a month
- ⑦ Regular inventory check: 1 time a year
- ⑧ Internal quality assurance: 1 time a year
- ⑨ Internal environment assessment: 1 time a year
- ⑩ Report on the operation of internal accounting management system: 4 times a year

#### | 2 | Audit results

Issues pointed out during the audit are immediately reported to the personnel with authority as specified in the 'Authority Policy', and follow-up measures are taken according to operational procedures of each internal audit mechanism.

### C Auditors' Opinion on Internal Control Mechanism Operation

| 1 | **Auditors concluded that the internal control mechanism of Hankook Tire Co., Ltd. operated effectively in the fiscal year ended December 31, 2008.**

| 2 | **Material weakness of the internal control mechanism has not been found.**

Audit committee member Won-Oh Hwang

Audit committee member Hae-Yung Min

Audit committee member Yong-Sung Lee

### A Operational Risk

Hankook Tire minimizes operational risk by means of internal and external control agencies and prescribed guidelines. The company operates a Audit Team to reduce the generation of internal risk. It also strives to minimize the generation of internal risk through regular and irregular audits. In the case of external risk, Corporate Strategy Planning Staff Office analyzes significant cases of external risk and manages for it. In addition, the company has prepared operational risk manuals and regulations for each team's business management unit. All its employees are committed to the exhaustive management of operational risk.

### B Financial Risk

Uncertainties in financial markets triggered by the sub-prime debacle in the US have spread so rapidly that the future cannot be foretold with any certainty. Even "blue chip" companies can face crises anytime if they fail to cope with such market volatility. Due to these changes in the financial environment, a company's ability to deal with alterations in currency values and to secure a stable cash flow has become all the more important. Hankook Tire is controlling for foreign exchange risk and liquidity risk in a thorough and intensive manner.

#### | 1 | Exchange risk

The company periodically calculates and evaluates exchange risk generated from the nine foreign currencies in which it deals (including the USD and the Euro) while establishing appropriate risk hedging instruments and levels. In addition, We have established an Exchange Risk Committee headed by the Global CEO. As the top decision-making body for this type of risk, the committee is held on a quarterly basis.

Major exchange risk hedging instruments include internal methods (such as the matching and netting of foreign-currency assets and liabilities) and external ones (primarily using forward exchanges and derivative products). Although our risk hedging strategy focuses on attaining natural hedges through the matching of assets and liabilities, we do not rule out artificial hedges utilizing financial products when and as necessary.

#### | 2 | Liquidity risk

The company monitors the borrowings and liquidity levels and the long- and short-term cash flow of its overseas subsidiaries and head office at all times. When financial markets are experiencing major fluctuations, we concentrate on stable operations with conservative liquidity management. We also introduce efficient fund operation tools in line with the development of new financial systems and products. These efforts are aimed at the development of a Global Cash Management System that integrates all our Regional Headquarters and affiliates.

### C Fire Risk

The company is thoroughly prepared against fire risk. Fire in the tire industry represents a great risk to both corporate assets and employee safety, as it is difficult to control and extinguish once it has broken out. Consequently, the company has developed a fire prevention system and early fire control system. We check to see that these systems have been properly maintained and managed, and constantly upgrade and improve them. These steps are taken company-wide, including at our overseas factories. As a result, we experienced no fire damage to our assets in 2008 and had no cases in which the leakage of inflammables or combustibles caused a fire or contaminated the environment.

### | 1 | Fire prevention systems

All our factories are equipped with the most modern fire prevention systems. Both Daejeon Plant and Keumsan Plant have their own fire brigades. They consist of one manager, nine members, two nurses, one fire engine, and one ambulance. In addition, eight security guards are ready to support their activities in an emergency. The in-house brigade members patrol all plants to report and remove any fire risk in advance. High-risk areas are designated as "specially managed zones for fire prevention" and are patrolled and guarded around the clock. We also implement an inflammable operations permit system; through it, we receive prior applications for the operation of all inflammables to be carried out within the company, and only allow them after confirming that effective prevention measures are in place. We also offer an inflammable work course, and inflammable materials can only be handled by workers who have completed safety training by the in-house fire brigades.

22 members of the 27 fire prevention management personnel at the Jiangsu Plant have certificates in fire safety management. The plant has also strengthened its fire control management measures by establishing such systems as "regulations for fire safety management," "guidelines for the daily repair and management of fire fighting equipment," "high-risk area inspections," "fire prevention duty room management," and "prior inflammables handling permission for subcontractors." In addition, it prevents fires in the field by preparing fire fighting flows and other emergency measures in case of a fire.

At the Jiaying Plant, 13 fire patrolmen and office workers inspect the premises 24/7. It is also located a mere five minutes from a government-run fire station, which conducts regular drills with its in-house fire brigade.

The Hungary Plant is equipped with state-of-the-art facilities and boasts a fire prevention management system that meets all European guidelines. Fire defense managers and patrolmen are on duty 24 hours a day, and the use of inflammables requires prior permission. A government-run fire station is located nearby; since the main panel of the plant's firefighting facilities is directly connected to it, a fire engine is to be dispatched within ten minutes when an alarm goes off. This facility has also prepared various scenarios for emergency situations through the ISO 14001 certification system and operates a wide range of other training and drill programs. Finally, it holds regular government-civilian drills according to emergency handling scenarios for fire safety.

### | 2 | Fire damage minimizing system

The company also offers firefighting skills training for its employees, the Daejeon Plant and Keumsan Plant hold fire drills at least once a month, conducted without prior notice by the fire defense managers. Once alerted, the workers must follow procedures outlined in the relevant scenario, and their performance is evaluated by the managers. This helps the employees to learn their roles and act speedily in case of a fire. Disaster prevention staff members can also respond to situations immediately, since they are kept informed of alarms and other events at the firefighting facilities through the short messaging service (SMS) on their company-provided cell phone.

At the Jiangsu Plant, new recruits receive eight hours of fire defense training, while other personnel are trained for four hours. All employees participate in annual scenario-based fire drills.

The Jiaying Plant offers fire-prevention training for recruits and has a firefighter program. In addition, it has installed a fire drill center, holds biannual firefighting skills competitions, and enables employees to experience the duties of firefighters for a day in cooperation with a nearby fire brigade. It also conducts biannual command post exercises (CPX) according to virtual scenarios and operates a welding permission system for subcontractors and in-house fire inspections.

The Hungary Plant operates a medical room 24/7, with a doctor stationed there during the day. In addition, its firefighting equipment is inspected by a government-authorized professional agency on a regular basis. Automatic firefighters have been installed for all processes that are vulnerable to fires, while sprinkler systems have been placed outdoors.

### | 3 | Safety diagnosis systems

The firefighting equipment at the Daejeon Plant and Keumsan Plant is regularly inspected by specialists. A "real-name inspection system" is also in operation, recording the details of each inspection and the name of the inspectors on special tags. In addition, the plants are also equipped with a third-party inspection system; their automatic firefighting systems are checked every month by external professional agencies, so that any abnormal conditions can be immediately addressed and improved through a "regular inspection program." Particularly, they are carrying out a "cross diagnosis system" during the first half of every year by having their fire defense managers inspect other plant and identify abnormal symptoms. By doing so, they are continuously upgrading their fire prevention management levels.

The Jiangsu Plant has also been strengthening its fire accident management systems. For example, it has installed automatic firefighting equipment, offers daily training to construction workers, and carries out daily supervision of all inflammable operations by safety managers. In addition, the plant identifies problems through regular diagnoses of high-risk areas. It also posts fire prevention-oriented layouts and warning signs for each process, while applying third-party management to the handling of inflammables and insisting on the special management of combustibles. The plant has also installed advanced automatic fire alarm systems and steam sprinklers for high-risk areas, including refineries and automatic warehouses. They collect air samples and send immediate fire signals through infrared sensors and air pipes. In addition, the plant has upgraded its maintenance and inspections of firefighting equipment.

Jiaying Plant operates a fire watch system for its entire premises, with watchers stationed in its fire control room 24/7. Automatic firefighting systems are maintained by an external professional agency, and CCTVs have been installed at vulnerable locations.

The Hungary Plant's environmental safety organization inspects the most vulnerable parts of each process on a weekly basis. The plant also operates a fire prevention training program for staff when they join the company and conducts annual mandatory fire safety training for all employees.

### **D** Legal Risk

Legal risk is on the rise, both qualitatively and quantitatively. In 2008, we were faced with legal risk in various areas, including the original equipment (OE) business (domestic and overseas), intellectual rights, product liability (both domestic and overseas), franchises, the Fair Trade Act, and the Unfair Competition Prevention Act.

Legal risk management is undertaken by our Legal Affairs Team, which works to prevent legal problems that can arise during our business activities. It does this by hiring specialists, including domestic and international law firms, patent attorneys, and certified public labor attorneys. In addition, it is tasked with post-remedial operations, supporting the institution of lawsuits through speedy procedures when conflicts arise.

The team's duties include the preparation and examination of domestic and overseas business-related contracts, offering advice on legal matters for various projects and our ongoing business operations, examining legal information (including corporate activities-related laws, regulations, and judicial precedents), supporting the settlement of disputes (including the arbitration of both lawsuits at home and abroad), and external cooperation.

02. Major Management and Other Contracts

**A Long-term Purchasing Contracts for Raw Materials**

- 1) Counterparties: Sri Trang and others
- 2) Contract times and periods: March 2008 and April 2008 - March 2009 (to be renewed annually)
- 3) Purpose and details: Procurement of natural rubber
- 4) Terms of payment: Letters of credit
- 5) Other important matters: No relevant data

**B Discretionary Assets Management Contract**

- 1) Counterparty: FWS Investment Advisory Corporation
- 2) Contract times and periods: July 19, 2007, July 19-July 18, 2010
- 3) Purpose and details: Profit taking through asset management
- 4) Terms of payment: Commissions
- 5) Other important matters: Contract can be adjusted or terminated by written notice one month before expiry date

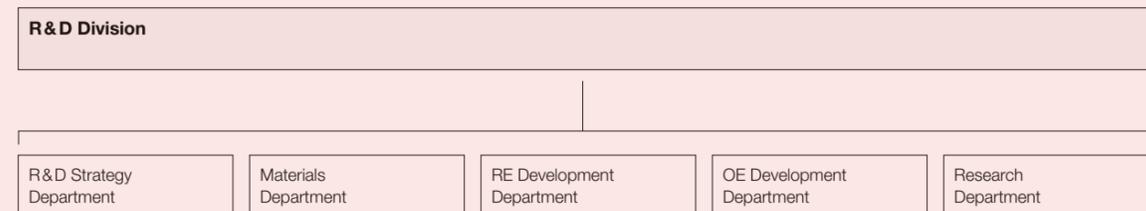
**C Asset Transfer Contract**

- 1) Counterparty: Daehwa Engineering & Machinery
- 2) Contract times and periods: February 12, 2008, February 2008 - April 2009
- 3) Purpose and details: Contract for asset transfer of bead manufacturing facilities
- 4) Contract amount: KRW 4,618 million

03. R & D Activities

**A Outline of R & D Activities**

| 1 | R&D organization



| 2 | R & D expenses

Korean won (In thousands)

Source	FY 2008	FY 2007	Note
Raw materials	-	-	-
Personnel	26,671,823	26,397,696	-
Depreciation	10,410,147	11,221,164	-
Consignment service fee	-	-	-
Other	48,764,267	45,624,856	-
Total R&D expenses	85,846,237	83,243,716	-
Account settlements			
Selling and administrative expenses	85,846,237	83,243,716	-
Manufacturing expenses	-	-	-
Development expenses (intangible assets)	-	-	-
R&D expenses/Sales ratio (Total R&D expenses ÷ Sales ×100)	3.2%	3.7%	-

Note 1) Based on Korea region

04. Summary of External Financing

**Domestic financing**

Korean won (In Millions)

Source	Beginning balance	New financing	Decrease, including repayment	Ending balance	Note
Banks	146,414	1,093,943	892,209	348,148	-
Insurance companies	-	30,000	30,000	-	-
Merchant banks	-	-	-	-	-
Credit finance companies	-	-	-	-	-
Mutual savings banks	-	-	-	-	-
Other financial institutions	-	-	-	-	-
Sub - total from financial institutions	146,414	1,123,943	922,209	348,148	-
Corporate bonds (public offerings)	30,000	-	30,000	-	-
Corporate bonds (private offerings)	-	-	-	-	-
New rights issues (public offerings)	-	-	-	-	-
New rights issues (private offerings)	-	-	-	-	-
Securitization (private offerings)	-	-	-	-	-
Securitization (private offerings)	-	-	-	-	-
Other	-	-	-	-	-
Sub - total from capital market	30,000	-	30,000	-	-
Borrowings from shareholders, executives, and affiliates	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>176,414</b>	<b>1,123,943</b>	<b>952,209</b>	<b>348,148</b>	-

Note) Total corporate bonds issue amount during FY 2008

Million won (Public offerings), Million won (Private offerings)

Overseas financing					Korean won
Source	Beginning balance	New financing	Decrease, including repayment	Ending balance	Note
Financial institutions	-	-	-	-	-
Overseas securities (Corporate bonds)	-	-	-	-	-
Overseas securities (Including stocks)	-	-	-	-	-
Securitization	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	-	-	-	-	-

05. Credit Ratings for Last Three Years

Data	Rating target: securities, etc.	Credit rating	Credit agency	Credit rating categories	Rating classification
Jul. 25, 2005	Corporate bonds	AA-	Korea Ratings	(AAA-D)	Regular rating
Jul. 28, 2005	Corporate bonds	AA-		(AAA-D)	Main rating
Jun. 07, 2006	Corporate bonds	AA-		(AAA-D)	Regular rating
Apr. 20, 2007	Corporate bonds	AA-		(AAA-D)	Regular rating
Jun. 04, 2008	Corporate bonds	AA-		(AAA-D)	Regular rating
Jun. 04, 2008	Corporate credit rating	AA-		(AAA-D)	Main rating
Feb. 12, 2009	Corporate bonds	AA-		(AAA-D)	Main rating
Feb. 27, 2009	Corporate bonds	AA-		(AAA-D)	Main rating
Jul. 26, 2005	Corporate bonds	AA-	Korea Investors Service	(AAA-D)	Regular rating
Jul. 29, 2005	Corporate bonds	AA-		(AAA-D)	Main rating
Jun. 30, 2006	Corporate bonds	AA-		(AAA-D)	Regular rating
Jul. 31, 2007	Corporate bonds	AA-		(AAA-D)	Regular rating
Jun. 04, 2008	Corporate bonds	AA-		(AAA-D)	Regular rating
Jun. 04, 2008	Corporate credit rating	AA-		(AAA-D)	Main rating
Dec. 26, 2008	Corporate credit rating	AA-		(AAA-D)	Regular rating
Feb. 13, 2009	Corporate bonds	AA-		(AAA-D)	Main rating
Feb. 27, 2009	Corporate bonds	AA-		(AAA-D)	Main rating

Ratings definition

Rating agency	Rating target: Securities	Credit rating	Rating definition	Note
Korea Ratings	Commercial paper	A1	An obligor rated "A1" has an extremely strong capacity to timely meet its financial commitments.	Ratings between A2 and B categories can be designated with a plus (+) or minus (-) sign according to their relative status within each generic rating category.
		A2	An obligor rated "A2" has a strong capacity to meet its financial commitments, although its redemption stability is somewhat weaker than that of an obligor in the A1 category.	
		A3	An obligor rated "A3" has an adequate capacity to meet its financial commitments, although its redemption stability is weaker than that of obligors in the upper rating categories.	
		B	An obligor rated "B" has the capacity to timely meet its financial commitments. However, its redemption stability contains speculative characteristics, so that it is susceptible to short-term changes in its business and economic environments.	
Bonds/Corporate credit ratings		C	An obligor rated "C" is speculative to a high degree.	
		D	An obligor rated "D" is in default.	
		AAA	An obligor rated "AAA" has an unquestionable capacity to redeem its financial obligations and holds an extremely low investment risk.	Ratings between the AA and B categories can be designated with a plus (+) or minus (-) signs according to their relative status within each generic rating category.
		AA	An obligor rated "AA" has a satisfactory capacity to redeem its financial obligations, although its solvency is relatively weaker than that of obligors in the AAA category.	
		A	An obligor rated "A" has a satisfactory capacity to redeem its financial obligations, although it is somewhat more susceptible to the adverse effects of changes in its business and economic environments than obligors in the AA rating categories.	
		BBB	An obligor rated "A" has a satisfactory capacity to redeem its financial obligations, although it is somewhat more susceptible to the adverse effects of changes in its business and economic environments than obligors in the AA ratings categories.	
		BB	An obligor rated "BB" has the capacity to redeem its financial obligations. However, its redemption stability contains speculative characteristics that cannot be guaranteed in the long term.	
		B	An obligor rated "B" is speculative in meeting its financial commitments. Adverse circumstantial changes are likely to impair its capacity to pay interest.	
		CCC	An obligor rated "CCC" is highly speculative in meeting its financial commitments.	

Continued

Rating agency	Rating target: Securities	Credit rating	Rating definition	Note
		CC	An obligor rated "CC" is more speculative than an obligor in the CCC category.	
		C	An obligor rated "C" has a high default risk and no capacity for redemption.	
		D	An obligor rated "D" is in default.	
Korea Investors Service	Commercial paper	A1	Capacity for timely payments is the strongest and hardly likely to be adversely affected by foreseeable events.	The ratings from 'A2' to 'B' may be modified by the addition of a plus (+) or minus (-) sign to show relative standings within the major categories.
		A2	Capacity for timely payments is strong, but not as great as A1 ratings in terms of the margin of safety.	
		A3	Capacity for timely payments is adequate but likely to be impaired by drastic changes in circumstances and economic conditions	
		B	Capacity for timely payments is doubtful and speculative, as it is more likely to be impaired by adverse changes in circumstances and economic conditions	
		C	Capacity for timely payments and safety is very vulnerable to near-term adverse changes in financial and economic conditions and is very speculative	
		D	In default	
	Corporate bonds	AAA	Capacity for timely payments is extremely strong.	
	Corporate credit rating	AA	Capacity for timely payments is very strong, but somewhat less than "AAA."	
		A	Capacity for timely payments is strong, but somewhat susceptible to external changes in the future.	
		BBB	Capacity for timely payments is adequate, but more likely to be weakened by future market changes.	
		BB	Capacity for timely payments faces no immediate problems, but is speculative in terms of its future stability	
		B	Capacity for timely payments is poor and speculative.	
		CCC	Contains the possibility of default.	
		CC	Contains more possibilities of default.	
		C	Highly likely to default.	
		D	In default.	